

# **City of Pontiac, Michigan**

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

# City of Pontiac, Michigan

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## **INDEPENDENT AUDITORS' REPORT**

December 29, 2011

To the Emergency Manager of  
the City of Pontiac  
Pontiac, 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 Pontiac, 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's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, which represents 99.6%, 100% and 100%, respectively, of the assets, net assets and additions of the Fiduciary Funds. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinions, insofar as they relate to the amounts included for the Retirement Systems and Health Trusts of the City, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, 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 Pontiac, Michigan*, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has accumulated fund deficits in three funds and in two component units. Management's plans with regard to these matters are described in Note 18.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison schedule for the General Fund and the pension system schedules of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Pontiac's* basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

# **City of Pontiac, Michigan**

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Pontiac, Michigan's (the "City") financial performance written on December 20, 2011 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 discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2011:

- The General Fund's deficit decreased \$4,643,931 from June 30, 2010, eliminating the fund deficit balance ending with a final fund balance of \$554,732 at June 30, 2011. Total revenue fell from 2010 by approximately \$2.2 million, making the third year in a row of significant reductions. Total expenditures for the year fell \$7,512,082 from 2010. Expenditure reductions were the result of the nonpayment of pension and VEBA contributions for the 2011 fiscal year and significant personnel and cost reductions initiated by the emergency financial manager (EFM).
- The third emergency financial manager was appointed during September 2011 to develop a plan to eliminate the current and cumulative deficit. See Note 18 for more detail.
- Property and income tax revenue decreased in the current year compared to the prior year from approximately \$23.0 million to approximately \$20.7 million.
- Fiscal year 2010 property tax revenue is based on December 31, 2008 taxable values and fiscal year 2011 property tax revenue is based on December 31, 2009 taxable values. Management continues to expect significant decreases in future years due to the lag effect of economic conditions since December 31, 2007.

### **Using this Annual Report**

This annual report consists of a series of four parts - management's discussion and analysis (this section), the basic financial statements, required supplemental information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements. The statement of net assets (deficit) 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.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The governmental fund statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the City operates like businesses, such as the water and sewer system.
  - Fiduciary fund statements provide information about the financial relationships, such as the retirement plan for the City's employees, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, the City has included a section with combining statements that provide details about nonmajor governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net assets (deficit) includes all the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads should be considered.

The government-wide financial statements of the City are divided into three categories:

- *Governmental activities* - Most of the City's basic services are included here, such as the police, fire, and public works departments, and general administration. Property taxes, state and federal grants, and licenses and permits finance most of these activities.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system, parking facilities, and golf course are included here.
- *Component units* - The City includes four other entities in its report - the Tax Increment Financing Authority, the Downtown Development Authority, the Economic Development Corporation, and the Brownfield Redevelopment Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

### 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 devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (such as construction projects) or to show that it is properly using certain taxes and grants (i.e., aid from the U.S. Department of Housing and Urban Development).

The City has three kinds of funds:

- *Governmental funds* - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- *Proprietary funds* - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
  - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.



# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

- The City uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for other programs and activities, such as the Equipment Revolving Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans and VEBA plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in millions of dollars):

	June 30							
	Governmental Activities				Business-type		Total	
	2010							
	2011	2010	Less Adjustment (1)	Governmental Activities (as restated)	2011	2010	2011	2010 (as restated)
<b>Assets</b>								
Current and other	\$ 31.3	\$ 37.3	\$ (1.7)	\$ 35.6	\$ 19.9	\$ 15.1	\$ 51.2	\$ 50.7
Capital assets	97.0	85.9	-	85.9	63.4	56.2	160.4	142.1
Total assets	128.3	123.2	(1.7)	121.5	83.3	71.3	211.6	192.8
<b>Liabilities</b>								
Current liabilities	13.4	17.0	(0.2)	16.8	4.3	4.7	17.7	21.5
Long-term liabilities	63.8	52.3	-	52.3	14.4	7.4	78.2	59.7
Total liabilities	77.2	69.3	(0.2)	69.1	18.7	12.1	95.9	81.2
<b>Net Assets</b>								
Invested in capital assets - Net of related debt	92.3	79.2	-	79.2	52.0	50.3	144.3	129.5
Restricted	9.5	16.4	(1.5)	14.9	1.9	2.0	11.4	16.9
Unrestricted (deficit)	(50.7)	(41.7)	-	(41.7)	10.7	6.9	(40.0)	(34.8)
Total net assets	<u>\$ 51.1</u>	<u>\$ 53.9</u>	<u>\$ (1.5)</u>	<u>\$ 52.4</u>	<u>\$ 64.6</u>	<u>\$ 59.2</u>	<u>\$ 115.7</u>	<u>\$ 111.6</u>

(1) Adjustment to fiscal year 2010 ending balance is the result of the removal of the Library Fund from the City's financial statements, whereas it was previously reported as a special revenue fund. See Note 21.

A portion of the net assets of the City's governmental activities is either restricted as to the purpose for which they can be used or they are invested in capital assets net of related debt.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

Consequently, unrestricted net assets were a deficit of \$50.7 million in 2011. A deficit does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. The long-term commitments have been accrued as part of the governmental activities liabilities and will be paid in future years with future revenue sources as payments come due.

Although the unrestricted business-type net assets total \$10.7 million in 2011, these resources can only be used for their respective operations such as water or sewer operations and cannot be used to make up for declines in governmental net assets.

The City's combined net assets increased by 3.5 percent from a year ago - increasing from \$111.6 million as restated for fiscal year 2010 to \$115.7 million in 2011. The increase is comprised of a \$1.3 million decline in governmental activities net assets and a \$5.4 million increase in business-type activities net assets.

For governmental activities, the decrease continues to be primarily a result of the City implementing the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* in fiscal year 2009. The City is required to record approximately \$12.9 million of annual OPEB liabilities and corresponding governmental activities expenditure in the current year. This is a liability of the governmental activities only and does not affect the General Fund.

For business-type activities, charges for services revenue is greater than 2010, but capital grant funding declined by \$2.4 million being received by the water and sewer operations in fiscal year 2011.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in millions of dollars):

	Year Ended June 30							
	Governmental Activities				Business-type Activities		Total	
	2011	2010	Less Adjustment (1)	2010	2011	2010	2011	2010
			(as restated)				(as restated)	
<b>Revenue</b>								
Program revenue:								
Charges for services	\$ 6.3	\$ 6.2	\$ (0.1)	\$ 6.1	\$ 22.8	\$ 19.5	29.1	\$ 25.6
Operating grants and contributions	8.3	7.3	-	7.3	-	-	8.3	7.3
Capital grants and contributions	2.2	2.7	-	2.7	2.5	4.9	4.7	7.6
General revenue:								
Property taxes	15.6	18.6	(1.0)	17.6	(0.1)	(0.1)	15.5	17.5
Income taxes	9.0	7.0	-	7.0	-	-	9.0	7.0
State-shared revenue	10.5	10.5	-	10.5	-	-	10.5	10.5
Unrestricted investment earnings	0.1	0.5	-	0.5	-	-	0.1	0.5
Unrestricted cable revenue	0.7	0.6	-	0.6	-	-	0.7	0.6
Gain on sale of fixed assets	-	0.4	-	0.4	-	0.2	-	0.6
Contribution from component units	0.8	0.4	-	0.4	-	-	0.8	0.4
Miscellaneous	-	-	-	-	-	-	-	-
Total revenue	53.5	54.2	(1.1)	53.1	25.2	24.5	78.7	77.6
<b>Program Expenses</b>								
General government	13.3	14.4	-	14.4	-	-	13.3	14.4
Public safety	26.4	28.5	-	28.5	-	-	26.4	28.5
Public works	8.2	12.4	-	12.4	-	-	8.2	12.4
Community and human services	5.0	4.9	(1.1)	3.8	-	-	5.0	3.8
Interest on long-term debt	1.1	1.3	-	1.3	-	-	1.1	1.3
Water	-	-	-	-	9.8	11.1	9.8	11.1
Sewer	-	-	-	-	9.6	9.6	9.6	9.6
Parking	-	-	-	-	1.2	1.6	1.2	1.6
Golf course	-	-	-	-	-	0.7	-	0.7
Total program expenses	54.0	61.5	(1.1)	60.4	20.6	23.0	74.6	83.4
<b>Excess of Revenue (Under) Over Expenses</b>								
<b>Before Special Items</b>	(0.5)	(7.3)	-	(7.3)	4.6	1.5	4.1	(5.8)
<b>Special Items</b>	-	2.7	-	2.7	-	-	-	2.7
<b>Transfers</b>	(0.8)	-	-	-	0.8	-	-	-
<b>Change in Net Assets</b>	<u>\$ (1.3)</u>	<u>\$ (4.6)</u>	<u>\$ -</u>	<u>\$ (4.6)</u>	<u>\$ 5.4</u>	<u>\$ 1.5</u>	<u>\$ 4.1</u>	<u>\$ (3.1)</u>

(1) Adjustment to fiscal year 2010 ending balance is the result of the removal of the Library Fund from the City's financial statements, whereas it was previously reported as a special revenue fund. See Note 21.

# **City of Pontiac Michigan**

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

### **Governmental Activities**

Expenses for the City's governmental activities totaled \$54.0 million, which is an 10.6 percent decrease from last year's total of \$60.4 million as restated to adjust for the reclassification of the library fund. A total of \$12.9 million of other postemployment benefit (OPEB) expenses was recorded in 2011 compared to \$4.4 million in 2010, which is an \$8.5 million increase in the OPEB expense. This increase in OPEB expense offset other 2011 expense reductions of \$14.8 million in governmental activities. Expenses decreased primarily due to a decrease in public safety and public works expenses in 2011.

Although the expenses of governmental activities decreased from prior year, revenue increased slightly. Revenue totaled \$53.5 million for 2011, which is an increase of \$0.4 million from last year's total of \$53.1 million as restated for the reclassification of the Library Fund.

### **Business-type Activities**

The City's business-type activities consist of the Water, Sewer, Parking, and Golf Course Funds.

The City provides water to residents from the Detroit water system. The Water Fund rates were increased in December 2009 to generate sufficient cash flows to cover the annual operating, maintenance, and replacement costs. The Water Fund had operating income of \$2.7 million in 2011 compared to an operating loss of \$0.4 million in 2010. The operating income was a result of the increase in water rates as well as the decrease of operating expenses.

The City provides sewage treatment through a City-owned and operated sewage treatment plant. The Sewer Fund rates were increased in December 2009 to cover the annual operating, maintenance, and replacement costs. The Sewer Fund had operating income of \$0.5 million in 2011 compared to a loss of \$1.55 million in 2010. Similar to water operations, the operating income was a result of an increase in sewer sales revenue compared to prior year, as well as a slight decrease in operating expenses.

The Parking Fund accounts for the activity of numerous City-owned parking lots and continues to rely on contributions from other City funds to offset operating losses. The operating loss for 2011 was approximately \$0.5 million, compared to \$0.8 million in 2010.

The City-owned golf course sustained an operating loss in 2011 of approximately \$10,800 compared to \$430,000 in 2010. The General Fund subsidized \$13,000 in 2011 compared to \$210,000 in 2010 to cover the cost of operations. The significant decrease in the operating loss and General Fund subsidy is due to the City leasing the golf course operations to an outside management company in April 2010. See Note 17 for more information. In addition, the 2000 Municipal Golf Course Bonds are the responsibility of the golf course. The bond agreement states if the golf course does not have sufficient net income to pay the debt service on the bond, TIFA 4 will be responsible for the current year's debt service. During the current year, TIFA 4 paid the debt service of approximately \$756,000.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

### 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 special property tax millages or grants. The only major governmental fund for the year ended June 30, 2011 is the General Fund.

The City eliminated its fund deficit and reported a fund balance of approximately \$554,000 at June 30, 2011. The elimination in the fund deficit is comprised of several items described below. Even though the General Fund has eliminated the cumulative deficit during 2011, the City continues to struggle to balance the significant annual operating deficit. The significant loss of property and income tax revenue annually offset prior year's expenditure reductions and requires additional adjustments to expenditures.

The decrease in the deficit of approximately \$4,644,000 resulted from the following activity in 2011:

- Nonpayment of pension and VEBA payments
- One-time reimbursement from the GERS VEBA to reimburse eligible retiree healthcare costs
- Restructuring of property tax reimbursement due to General Motors
- Significant reductions in staffing levels and other cost reductions

**Operating Revenue and Expenditures** - The General Fund had total revenue of \$35.6 million and total expenses of \$29.5 million in 2011 compared to \$37.8 million in revenue and \$37.0 million in expenses in 2010. Property and income taxes are \$20.7 million, or 58 percent, of General Fund revenue in 2011. Property and income taxes decreased 11 percent from 2010 due to economic conditions impacting the property tax base. In addition, state-shared revenue is \$10.6 million, or 30 percent, of General Fund revenue in 2011 and increased 2 percent from 2010.

To keep up with declining revenue, General Fund expenditures were also reduced. The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$17.1 million in 2011 compared to \$23.6 million in 2010. These two service areas represent 58 percent of the General Fund's expenditures and are primarily funded through general revenue such as taxes and state-shared revenue.

**Other Financing Uses** - The General Fund transferred a total of \$3.4 million to other funds, including an operating subsidy to the District Court of \$2.5 million in 2011.

# City of Pontiac Michigan

## Management's Discussion and Analysis (Continued)

The single most important measure of short-term financial health is unreserved fund balance of the General Fund. The following is the six-year history of fund balance for the General Fund:

	2006	2007	2008	2009	2010	2011
Fund balance (deficit):						
Unreserved	\$ (4,177,203)	\$ (6,142,240)	\$ (7,071,957)	\$ (4,790,071)	\$ (4,089,199)	\$ 554,732
Reserved	64,000	64,000	64,000	-	-	-
Total fund balance (deficit)	<u>\$ (4,113,203)</u>	<u>\$ (6,078,240)</u>	<u>\$ (7,007,957)</u>	<u>\$ (4,790,071)</u>	<u>\$ (4,089,199)</u>	<u>\$ 554,732</u>

In 2009, the City recorded a prior period adjustment of \$817,000, decreasing the fund deficit relating to value of stock held.

### General Fund Budgetary Highlights

As noted above, the General Fund generated a surplus of approximately \$4,644,000 during the year ended June 30, 2011. The budget was balanced with substantial reductions in employee costs coupled with two one-time actions: not paying the annual pension and VEBA contributions and receiving reimbursement from the GERS VEBA for eligible retiree healthcare expenditures (using virtually the entire VEBA balance). While balancing the 2011 operating budget and eliminating the cumulative deficit, the City faces significant future year challenges balancing the annual operating budget. The expenditure reductions also included the outsourcing of the building, safety, and planning activity, grant management, and income tax collections and administration.

See the economic factors and next year's budgets and rates section for more information on the City's plans to eliminate the deficit.

### Capital Asset and Debt Administration

At the end of 2011, the City had invested \$23.8 million in a broad range of capital assets including land and improvements, buildings and improvements, equipment, roads, street signs, bridges, sidewalks, furniture, vehicles, and water and sewer lines.

Governmental activities and the TIFA component unit incurred new debt totaling \$4,000,000 during the year relating to the General Motors and Motors Liquidation Company property tax appeal settlement. Governmental activities of the City and TIFA are responsible for repayment of \$1,904,580 and \$2,095,420, respectively.

New debt incurred in the enterprise funds during the year included Water Fund drawdowns of \$846,733 on the 2010 Drinking Water Revolving Fund loan 7307-01 and Sewer Fund drawdowns of \$5,241,255 on the 2010 Clean Water Revolving Fund loan 5408-01.

# **City of Pontiac Michigan**

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

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

As previously discussed, the General Fund's cumulative deficit of \$4.1 million from the year ended June 30, 2010 was eliminated in fiscal year 2011. The General Fund's fund balance for the year ended June 30, 2011 is \$554,732. The City's adopted budget for the 2012 fiscal year is being continuously reviewed by the emergency financial manager. The significant revenue decreases are projected to continue for several more years. Economic conditions statewide driving these decreases continue to be a challenge for the City in fiscal year 2012 and beyond.

The emergency manager submitted a financial and operating plan to eliminate the operating deficit for the 2012 fiscal year. The key initiatives that will be undertaken to eliminate the operating deficit are as follows:

- Management will reduce the cost of the City's health insurance. By consolidating the number of plans, sharing the costs of insurance with employees and retirees through offering a plan that is more realistic in today's economy, the City should realize at least \$2.8 million of savings on an annual basis. These savings will be realized through the modification, rejection, termination, or renegotiation of contracts pursuant to Section 19 of Public Act 4 of 2011.
- Management will seek reimbursement from the federal government for up to 80 percent of the cost of health insurance costs of retirees who have not attained 65 years of age and who retired after June 30, 2010. This reimbursement is expected to be \$1.8 million in fiscal 2012.
- Management plans to outsource fire suppression activities to another governmental unit. This initiative is expected to reduce the cost of such services by approximately \$3 million per year.
- Management will initiate a sanitation user fee to eliminate the General Fund subsidy for these services. This initiative is expected to generate \$1.3 million in revenue and eliminate the General Fund subsidy of the same amount.

During the next two years, the City plans to continue to meet its existing debt service requirements on all bonds, notes, and municipal securities and all other uncontested legal obligations. In addition, the City will continue to develop partnerships with neighboring communities to provide services in an efficient manner. Services that can be provided by the private sector at a lower cost than can be provided by the City will continue to be explored.

# **City of Pontiac Michigan**

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

### **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 demonstrate the City's accountability for the money it receives. The period covered coincides with the term of emergency financial manager Michael L. Stampfler (July 1, 2010-September 11, 2011). The emergency financial manager serving at the time this letter is written for presentation (Louis H. Schimmel) began serving on September 12, 2011. If you have questions about this report or need additional information, contact the City of Pontiac, Michigan's finance director's office, 47450 Woodward Ave., Pontiac, Michigan 48342.



# City of Pontiac, Michigan

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

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 13,019,823	\$ 9,962,925	\$ 22,982,748	\$ 4,628,649
Receivables - Net (Note 4):				
Property and income taxes	2,086,719	470	2,087,189	33,066
Customer receivables	-	8,139,006	8,139,006	-
Other receivables	2,558,991	63,411	2,622,402	-
Due from other governmental units	6,186,873	-	6,186,873	-
Special assessments receivable	-	57,865	57,865	-
Due from component units - Advances	3,880,000	-	3,880,000	-
Internal balances	(32,156)	32,156	-	-
Prepaid and other assets	820,492	-	820,492	-
Restricted assets (Note 8)	2,498,255	1,712,298	4,210,553	7,941,938
Long-term lease receivable	315,000	-	315,000	-
Capital assets (Note 5):				
Assets not subject to depreciation	36,991,797	17,070,322	54,062,119	-
Assets subject to depreciation - Net	59,952,978	46,318,005	106,270,983	6,129,064
Total assets	128,278,772	83,356,458	211,635,230	18,732,717
<b>Liabilities</b>				
Accounts payable	4,681,051	3,828,737	8,509,788	160,040
Due to other governmental units	581,290	-	581,290	-
Due to primary government	-	-	-	3,880,000
Deposits	492,229	46,931	539,160	-
Accrued liabilities and other:				
Accrued interest payable	164,825	32,369	197,194	316,544
Other accrued liabilities	7,251,977	404,185	7,656,162	530,184
Unearned revenue (Note 4)	207,520	-	207,520	552,486
Noncurrent liabilities (Note 7):				
Due within one year	5,055,323	1,005,000	6,060,323	2,808,855
Due in more than one year:				
Net OPEB obligation	23,732,475	2,522,323	26,254,798	-
Net pension obligation	824,166	-	824,166	-
Long-term debt	34,178,158	10,882,988	45,061,146	51,310,825
Total liabilities	77,169,014	18,722,533	95,891,547	59,558,934
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	92,335,365	52,000,339	144,335,704	6,129,064
Restricted for:				
Streets and highways	965,894	-	965,894	-
Debt service	-	216,935	216,935	7,941,938
Capital projects	3,750,081	-	3,750,081	-
Sanitation	1,014,282	-	1,014,282	-
Drains	872,734	-	872,734	-
Senior activities	1,276,084	-	1,276,084	-
Grants	537,959	-	537,959	-
Cable television	1,034,345	-	1,034,345	-
Water and sewer bond reserves	-	1,712,298	1,712,298	-
Revolving loans	-	-	-	889,298
Unrestricted	(50,676,986)	10,704,353	(39,972,633)	(55,786,517)
Total net assets (deficit)	\$ 51,109,758	\$ 64,633,925	\$ 115,743,683	\$ (40,826,217)

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Pontiac, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 13,279,644	\$ 1,638,847	\$ -	\$ -
Public safety	26,408,700	3,353,292	269,245	-
Public works	8,173,113	1,293,949	4,897,911	2,232,255
Community and human services	5,034,645	37,251	3,176,376	-
Interest on long-term debt	1,103,567	-	-	-
Total governmental activities	53,999,669	6,323,339	8,343,532	2,232,255
Business-type activities:				
Water Fund	9,840,415	12,380,407	-	805,840
Sewer Fund	9,586,895	9,790,375	-	1,707,175
Parking Fund	1,192,579	643,808	-	-
Golf Course Fund	19,940	9,174	-	-
Total business-type activities	20,639,829	22,823,764	-	2,513,015
Total primary government	<b>\$ 74,639,498</b>	<b>\$ 29,147,103</b>	<b>\$ 8,343,532</b>	<b>\$ 4,745,270</b>
Component units:				
Tax Increment Financing Authority	\$ 4,015,755	\$ 38,001	\$ -	\$ -
Downtown Development Authority	38,204	-	-	-
Economic Development Corporation	178,199	-	-	-
Brownfield Redevelopment Authority	160,918	-	-	-
Total component units	<b>\$ 4,393,076</b>	<b>\$ 38,001</b>	<b>\$ -</b>	<b>\$ -</b>

#### General revenue:

Property taxes  
Income taxes  
State-shared revenue  
Investment income  
Cable franchise fees  
Other miscellaneous income  
Contributions from primary government  
Contributions from component units

Total general revenue

#### Transfers

#### Change in Net Assets

**Net Assets (Deficit) - Beginning of year - As restated (Note 21)**

**Net Assets (Deficit) - End of year**

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (11,640,797)	\$ -	\$ (11,640,797)	\$ -
(22,786,163)	-	(22,786,163)	-
251,002	-	251,002	-
(1,821,018)	-	(1,821,018)	-
(1,103,567)	-	(1,103,567)	-
(37,100,543)	-	(37,100,543)	-
-	3,345,832	3,345,832	-
-	1,910,655	1,910,655	-
-	(548,771)	(548,771)	-
-	(10,766)	(10,766)	-
-	4,696,950	4,696,950	-
(37,100,543)	4,696,950	(32,403,593)	-
-	-	-	(3,977,754)
-	-	-	(38,204)
-	-	-	(178,199)
-	-	-	(160,918)
-	-	-	(4,355,075)
15,559,259	(91,870)	15,467,389	3,312,659
8,991,164	-	8,991,164	-
10,524,000	-	10,524,000	-
126,586	2,751	129,337	112,564
663,640	-	663,640	-
-	-	-	3,150
-	-	-	5,278,451
814,385	-	814,385	-
36,679,034	(89,119)	36,589,915	8,706,824
(776,206)	776,206	-	-
(1,197,715)	5,384,037	4,186,322	4,351,749
52,307,473	59,249,888	111,557,361	(45,177,966)
<b>\$ 51,109,758</b>	<b>\$ 64,633,925</b>	<b>\$ 115,743,683</b>	<b>\$ (40,826,217)</b>

# City of Pontiac, Michigan

## Governmental Funds Balance Sheet June 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 909,760	\$ 10,384,625	\$ 11,294,385
Receivables - Net (Note 4):			
Property and income taxes	2,075,679	11,040	2,086,719
Other receivables	1,877,046	7,459	1,884,505
Due from other governmental units	3,675,972	2,510,901	6,186,873
Due from other funds (Note 6)	1,914,452	225,636	2,140,088
Due from other funds - Advances (Note 6)	-	2,252,438	2,252,438
Other assets	-	19,382	19,382
Restricted cash and cash equivalents (Note 8)	-	2,498,255	2,498,255
	<u>\$10,452,909</u>	<u>\$ 17,909,736</u>	<u>\$ 28,362,645</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,143,439	\$ 1,308,114	\$ 3,451,553
Due to other governmental units	581,047	243	581,290
Due to other funds (Note 6)	-	2,172,244	2,172,244
Due to other funds - Advances (Note 6)	3,829,314	-	3,829,314
Deposits	490,559	1,670	492,229
Other accrued liabilities	860,995	372,609	1,233,604
Deferred revenue	1,992,823	1,202,292	3,195,115
	<u>9,898,177</u>	<u>5,057,172</u>	<u>14,955,349</u>
<b>Fund Balances</b>			
Nonspendable - Inventory	-	19,382	19,382
Restricted:			
Roads	-	846,364	846,364
Police	-	537,959	537,959
Capital projects	-	4,326,619	4,326,619
Landfill postclosure costs	-	2,498,255	2,498,255
Drains	-	2,822,734	2,822,734
Senior activities	-	1,274,923	1,274,923
Cable television	-	1,034,345	1,034,345
Committed - Cemetery	-	45,957	45,957
Unassigned	554,732	(553,974)	758
	<u>554,732</u>	<u>12,852,564</u>	<u>13,407,296</u>
Total fund balances	<u>554,732</u>	<u>12,852,564</u>	<u>13,407,296</u>
Total liabilities and fund balances	<u>\$10,452,909</u>	<u>\$ 17,909,736</u>	<u>\$ 28,362,645</u>

# City of Pontiac, 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>	\$ 13,407,296
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	93,822,012
Long-term lease receivable from component unit to repay building authority bonds is not reported in the funds since the bonds payable are not recorded in the fund	315,000
Certain receivables are expected to be collected over several years and are not available to pay current liabilities in the funds	2,987,595
Bonds payable, capital lease, other postemployment benefit, and compensated absences obligations are not due and payable in the current period and are not reported in the funds and pension obligations are not recorded in the funds	(60,838,323)
Accrued interest is not due and payable in the current period and is not reported in the funds	(164,825)
Internal service funds are included as part of governmental activities	<u>1,581,003</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 51,109,758</u></b>

# City of Pontiac, Michigan

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 11,749,259	\$ 3,904,666	\$ 15,653,925
Income taxes	8,991,164	-	8,991,164
Licenses and permits	1,385,786	-	1,385,786
Federal sources	-	5,085,961	5,085,961
State sources	10,685,583	5,219,427	15,905,010
Charges for services	2,129,780	996,120	3,125,900
Fines and forfeitures	-	1,442,277	1,442,277
Investment income	(10,767)	(10,924)	(21,691)
Contribution from component units	-	1,114,385	1,114,385
Other revenue	701,902	426,113	1,128,015
Total revenue	35,632,707	18,178,025	53,810,732
<b>Expenditures</b>			
Current:			
General government	2,644,796	236,762	2,881,558
District court	-	3,888,032	3,888,032
Public safety	17,103,591	268,451	17,372,042
Public works and utilities	1,397,539	11,568,587	12,966,126
Commercial and industrial development	-	54,561	54,561
Community development	1,268,484	3,135,196	4,403,680
Community and human services	164,292	501,935	666,227
General and special programs	4,744,906	5,278,450	10,023,356
Debt service	2,158,713	1,590,852	3,749,565
Total expenditures	29,482,321	26,522,826	56,005,147
<b>Excess of Revenue Over (Under) Expenditures</b>	6,150,386	(8,344,801)	(2,194,415)
<b>Other Financing Sources (Uses)</b>			
Issuance of debt	1,374,984	529,596	1,904,580
Transfers in	541,498	3,570,022	4,111,520
Transfers out	(3,422,937)	(1,292,313)	(4,715,250)
Total other financing (uses) sources	(1,506,455)	2,807,305	1,300,850
<b>Net Change in Fund Balances</b>	4,643,931	(5,537,496)	(893,565)
<b>Fund Balances (Deficit) - Beginning of year - As restated (Note 21)</b>	(4,089,199)	18,390,060	14,300,861
<b>Fund Balances - End of year</b>	<u>\$ 554,732</u>	<u>\$ 12,852,564</u>	<u>\$ 13,407,296</u>

# City of Pontiac, 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>	\$ (893,565)
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 reported in governmental funds	18,412,324
Depreciation reported in the statement of activities	(5,111,072)
Loss on disposal of fixed assets	(1,609,347)
Certain revenue reported in the statement of activities does not provide current financial resources in the governmental funds	714,420
New debt is an other financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(1,904,580)
Increase in net pension obligations is recognized in the statement of activities, but not in the governmental funds	(824,166)
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(12,998,413)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,400,681
Amortization on bond discount is not recorded in governmental funds; in the statement of activities, this is recorded as an adjustment to interest expense	66,794
Interest expense is recorded when incurred in the statement of activities	24,674
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	842,140
Internal service funds are included as part of governmental activities	(317,605)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (1,197,715)</u></b>

# City of Pontiac, Michigan

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

	Major Funds			Nonmajor Fund	Total Enterprise Funds	Governmental Activities
	Water Fund	Sewer Fund	Parking Fund	Golf Course Fund		Internal Service
<b>Assets</b>						
Current assets:						
Cash and cash equivalents (Note 3)	\$ 5,573,144	\$ 3,571,125	\$ 779,054	\$ 39,602	\$ 9,962,925	\$ 1,725,438
Receivables - Net (Note 4):						
Property taxes receivable	-	-	470	-	470	-
Special assessments receivable	14,513	43,352	-	-	57,865	-
Customer receivables	4,578,622	3,560,384	-	-	8,139,006	-
Other receivables	1,886	6,920	28,625	25,980	63,411	674,486
Due from component units - Advances	-	-	-	-	-	3,880,000
Due from other funds	-	32,156	-	-	32,156	-
Prepaid expenses and other assets	-	-	-	-	-	801,110
Restricted cash and cash equivalents (Note 8)	321,978	255,391	-	-	577,369	-
<b>Total current assets</b>	<b>10,490,143</b>	<b>7,469,328</b>	<b>808,149</b>	<b>65,582</b>	<b>18,833,202</b>	<b>7,081,034</b>
Noncurrent assets:						
Restricted cash and cash equivalents (Note 8)	565,127	569,802	-	-	1,134,929	-
Due from other funds - Advances (Note 6)	-	-	-	-	-	1,576,876
Capital assets (Note 5):						
Nondepreciable capital assets	2,427,906	10,742,202	3,166,454	733,760	17,070,322	-
Depreciable capital assets	16,101,490	18,015,528	10,648,137	1,552,850	46,318,005	3,122,763
<b>Total noncurrent assets</b>	<b>19,094,523</b>	<b>29,327,532</b>	<b>13,814,591</b>	<b>2,286,610</b>	<b>64,523,256</b>	<b>4,699,639</b>
<b>Total assets</b>	<b>29,584,666</b>	<b>36,796,860</b>	<b>14,622,740</b>	<b>2,352,192</b>	<b>83,356,458</b>	<b>11,780,673</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	1,303,858	2,510,820	11,058	3,001	3,828,737	1,229,498
Deposits	184	-	16,747	30,000	46,931	-
Accrued liabilities and other:						
Accrued interest payable	1,978	30,391	-	-	32,369	-
Accrued and other liabilities	148,446	192,330	63,409	-	404,185	6,018,373
Current portion of long-term debt	400,000	605,000	-	-	1,005,000	626,191
<b>Total current liabilities</b>	<b>1,854,466</b>	<b>3,338,541</b>	<b>91,214</b>	<b>33,001</b>	<b>5,317,222</b>	<b>7,874,062</b>
Noncurrent liabilities:						
Other postemployment benefit obligation (Note 13)	1,356,611	1,165,712	-	-	2,522,323	-
Long-term debt - Net of current portion (Note 7)	2,461,733	7,921,255	500,000	-	10,882,988	2,325,608
<b>Total noncurrent liabilities</b>	<b>3,818,344</b>	<b>9,086,967</b>	<b>500,000</b>	<b>-</b>	<b>13,405,311</b>	<b>2,325,608</b>
<b>Total liabilities</b>	<b>5,672,810</b>	<b>12,425,508</b>	<b>591,214</b>	<b>33,001</b>	<b>18,722,533</b>	<b>10,199,670</b>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	15,667,663	20,231,475	13,814,591	2,286,610	52,000,339	170,964
Restricted	887,105	825,193	216,935	-	1,929,233	-
Unrestricted	7,357,088	3,314,684	-	32,581	10,704,353	1,410,039
<b>Total net assets</b>	<b>\$ 23,911,856</b>	<b>\$ 24,371,352</b>	<b>\$ 14,031,526</b>	<b>\$ 2,319,191</b>	<b>\$ 64,633,925</b>	<b>\$ 1,581,003</b>



# City of Pontiac, Michigan

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

	Major Funds			Nonmajor Fund	Total Enterprise Funds	Governmental Activities
	Water Fund	Sewer Fund	Parking Fund	Golf Course Fund		Internal Service
<b>Operating Revenue</b>						
Charges for services	\$ 12,380,407	\$ 9,767,798	\$ 595,365	\$ 9,174	\$ 22,752,744	\$ 26,990,754
Other operating revenue	-	22,577	48,443	-	71,020	-
Total operating revenue	12,380,407	9,790,375	643,808	9,174	22,823,764	26,990,754
<b>Operating Expenses</b>						
Purchased water	3,575,842	-	-	-	3,575,842	-
Insurance	-	-	-	-	-	24,368,876
Operating and maintenance costs	2,639,467	6,376,595	524,808	19,940	9,560,810	1,975,872
Administration	2,482,072	1,078,692	131,418	-	3,692,182	790,151
Workers' compensation expense - Net of change in liability	-	-	-	-	-	(695,480)
Depreciation	1,007,396	1,877,637	536,353	-	3,421,386	698,590
Total operating expenses	9,704,777	9,332,924	1,192,579	19,940	20,250,220	27,138,009
<b>Operating Income (Loss)</b>	2,675,630	457,451	(548,771)	(10,766)	2,573,544	(147,255)
<b>Nonoperating Revenue (Expenses)</b>						
Property tax chargebacks	-	-	(91,870)	-	(91,870)	-
Interest revenue	1,204	2,539	(958)	(34)	2,751	148,277
Interest expense	(135,638)	(253,971)	-	-	(389,609)	(146,151)
Total nonoperating (expenses) revenue	(134,434)	(251,432)	(92,828)	(34)	(478,728)	2,126
<b>Income (Loss) - Before contributions</b>	2,541,196	206,019	(641,599)	(10,800)	2,094,816	(145,129)
<b>Capital Contributions from Federal Grants</b>	805,840	1,707,175	-	-	2,513,015	-
<b>Transfers In</b>	77,106	196,779	848,551	13,000	1,135,436	543,595
<b>Transfers Out</b>	(270,000)	(89,230)	-	-	(359,230)	(716,071)
<b>Change in Net Assets</b>	3,154,142	2,020,743	206,952	2,200	5,384,037	(317,605)
<b>Net Assets - Beginning of year</b>	20,757,714	22,350,609	13,824,574	2,316,991	59,249,888	1,898,608
<b>Net Assets - End of year</b>	<b>\$ 23,911,856</b>	<b>\$ 24,371,352</b>	<b>\$ 14,031,526</b>	<b>\$ 2,319,191</b>	<b>\$ 64,633,925</b>	<b>\$ 1,581,003</b>

# City of Pontiac, Michigan

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

	Major Funds			Nonmajor Fund	Total Enterprise Funds	Governmental Activities
	Water Fund	Sewer Fund	Parking Fund	Golf Course		Internal Service
				Fund		
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ 11,994,322	\$ 10,021,392	\$ 624,683	\$ (6,806)	\$ 22,633,591	\$ 30,454,759
Payments to suppliers	(5,352,420)	(4,028,847)	(443,765)	(2,647)	(9,827,679)	(27,430,625)
Payments to employees	(2,637,482)	(2,834,029)	(262,717)	(15,991)	(5,750,219)	(1,695,741)
Other receipts	-	-	-	-	-	783,434
Net cash provided by (used in) operating activities	4,004,420	3,158,516	(81,799)	(25,444)	7,055,693	2,111,827
<b>Cash Flows from Noncapital Financing Activities</b>						
Transfers from other funds	77,106	196,779	848,551	13,000	1,135,436	543,595
Repayments of loans made to other funds	25,562	-	-	-	25,562	-
Transfers to other funds	(270,000)	(89,230)	-	-	(359,230)	(716,071)
Loans made to other funds	-	-	-	-	-	(1,256,876)
Net cash (used in) provided by noncapital financing activities	(167,332)	107,549	848,551	13,000	801,768	(1,429,352)
<b>Cash Flows from Capital and Related Financing Activities</b>						
Issuance of bonds	846,733	5,241,255	-	-	6,087,988	-
Receipt of capital grants	892,360	3,002,579	-	-	3,894,939	-
Special assessment collections	1,023	3,661	-	-	4,684	-
Property taxes (restricted for capital or capital debt)	-	-	(82,792)	-	(82,792)	-
Purchase of capital assets	(2,142,473)	(8,487,494)	-	-	(10,629,967)	(114,808)
Principal and interest paid on capital debt	(504,763)	(594,484)	-	-	(1,099,247)	(769,034)
Net cash used in capital and related financing activities	(907,120)	(834,483)	(82,792)	-	(1,824,395)	(883,842)
<b>Cash Flows from Investing Activities -</b>						
Interest received for (paid on) investments	1,204	2,539	(958)	(34)	2,751	148,277
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,931,172	2,434,121	683,002	(12,478)	6,035,817	(53,090)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,529,077	1,962,197	96,052	52,080	5,639,406	1,778,528
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 6,460,249</u>	<u>\$ 4,396,318</u>	<u>\$ 779,054</u>	<u>\$ 39,602</u>	<u>\$ 11,675,223</u>	<u>\$ 1,725,438</u>

# City of Pontiac, Michigan

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

	Major Funds			Nonmajor Fund	Total Enterprise Funds	Governmental Activities
	Water Fund	Sewer Fund	Parking Fund	Golf Course		Internal Service
				Fund	Funds	
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>						
Cash and investments	\$ 5,573,144	\$ 3,571,125	\$ 779,054	\$ 39,602	\$ 9,962,925	\$ 1,725,438
Restricted cash - Noncurrent	565,127	569,802	-	-	1,134,929	-
Restricted cash - Current	321,978	255,391	-	-	577,369	-
<b>Total cash and cash equivalents</b>	<b>\$ 6,460,249</b>	<b>\$ 4,396,318</b>	<b>\$ 779,054</b>	<b>\$ 39,602</b>	<b>\$ 11,675,223</b>	<b>\$ 1,725,438</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>						
Operating income (loss)	\$ 2,675,630	\$ 457,451	\$ (548,771)	\$ (10,766)	\$ 2,573,544	\$ (147,255)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	1,007,396	1,877,637	536,353	-	3,421,386	698,590
Changes in assets and liabilities:						
Receivables	(386,085)	231,017	(19,125)	(15,980)	(190,173)	4,247,439
Prepaid and other assets	-	-	-	-	-	(455,320)
Accounts payable	(48,692)	(126,330)	(14,392)	1,302	(188,112)	(344,510)
Accrued and other liabilities	757,441	718,741	(30,789)	-	1,445,393	(1,887,117)
Deposits	(1,270)	-	(5,075)	-	(6,345)	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 4,004,420</b>	<b>\$ 3,158,516</b>	<b>\$ (81,799)</b>	<b>\$ (25,444)</b>	<b>\$ 7,055,693</b>	<b>\$ 2,111,827</b>

# City of Pontiac, Michigan

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

	Pension and Other Employee Benefits Trust Funds (1)	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 293,386	\$ 2,458,775
Cash and investments held as collateral for securities lending:		
Repurchase agreements	30,155,330	-
Agency notes and bonds	21,955,490	-
Certificates of deposit	19,646,147	-
Time deposits	10,921,964	-
Asset-backed floating rate note	9,828,651	-
Commercial paper	7,508,153	-
Variable rate certificates of deposit	4,919,904	-
Variable rate notes and bonds	4,150,123	-
Sovereign guaranteed commercial paper	1,606,499	-
Sweep vehicle	613,593	-
Corporate bonds	256,594	-
Investments at fair value - Including loaned securities:		
Money markets and mutual funds	35,107,033	-
U.S. government agency notes and debentures	22,313,087	-
Corporate and other bonds	48,528,167	-
Equities	448,777,696	-
Private equities	15,672,813	-
U.S. government mortgage-backed securities	32,915,526	-
Commercial mortgage pools	9,210,753	-
Asset-backed securities	8,840,330	-
High-yield bonds	28,730,605	-
Equity mutual fund	4,976,052	-
Other fixed income	28,403,203	-
Other	857,886	-
Real estate	7,334,285	-
Accrued interest and dividends receivable	1,732,339	-
Accounts receivable:		
Due from City of Pontiac Police and Fire Retiree VEBA	187,162	-
Due from City of Pontiac	274,310	-
Due from General Employees' Retirement System VEBA	134,301	-
Due from City of Pontiac General Employees' Retirement System	4,589	-
Other	-	771,101
Total assets	805,855,971	\$ 3,229,876
<b>Liabilities</b>		
Due to City of Pontiac	2,994,110	\$ -
Due to General Employees' Retirement System	134,301	-
Due to City of Pontiac Police and Fire Retirement System	191,796	-
Accounts payable	1,010,199	20,200
Amounts due to broker under securities lending agreement	111,982,445	-
Due to other governmental units	-	2,359,936
Accrued liabilities	-	792,526
Deposits	-	57,214
Total liabilities	116,312,851	\$ 3,229,876
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<b>\$ 689,543,120</b>	

(1) The General City Employees' Retirement, Police and Fire Retirement Systems, General Employees' Retirement System VEBA, and Police and Fire Retirement System VEBA financial information is reported as of December 31, 2010.

# City of Pontiac, Michigan

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

	Pension and Other Employee Benefits Trust Funds (1)
<b>Additions</b>	
Investment income:	
Interest and dividend income	\$ 13,894,694
Net increase in fair value	77,401,084
Less investment advisor fees	<u>(3,640,973)</u>
Net investment income	87,654,805
Securities lending income:	
Interest and fees	340,369
Less borrow rebates and bank fees	<u>(156,148)</u>
Net securities lending income	184,221
Contributions:	
Employer	5,251,254
Employee	<u>362,656</u>
Total contributions	5,613,910
Miscellaneous and litigation revenue	<u>536,804</u>
Total additions	93,989,740
<b>Deductions</b>	
Retirees' pension benefits and retirement incentives	37,509,723
Retiree health benefit payments	11,937,205
Member refunds and withdrawals	280,755
Other expenses	739,178
Charges from the City - Administrative expenses	<u>360,358</u>
Total deductions	<u>50,827,219</u>
<b>Net Increase in Net Assets Held in Trust</b>	43,162,521
<b>Net Assets Held in Trust for Pension and Other Employee Benefits -</b>	
Beginning of year	<u>646,380,599</u>
End of year	<u><b>\$ 689,543,120</b></u>

(1) The General City Employees' Retirement, Police and Fire Retirement Systems, General Employees' Retirement System VEBA, and Police and Fire Retirement System VEBA financial information is reported as of December 31, 2010.

# City of Pontiac, Michigan

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

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
<b>Assets</b>					
Current:					
Cash and investments	\$ 2,131,172	\$ 522	\$ 1,829,155	\$ 667,800	\$ 4,628,649
Receivables - Net - Property taxes	21,784	11,282	-	-	33,066
Noncurrent assets:					
Due from component units - Advances	477,000	(477,000)	-	-	-
Restricted assets	7,941,938	-	-	-	7,941,938
Capital assets - Net	-	-	6,129,064	-	6,129,064
Total assets	10,571,894	(465,196)	7,958,219	667,800	18,732,717
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	-	-	-	160,040	160,040
Due to primary government - Advances	3,880,000	-	-	-	3,880,000
Accrued liabilities	533,045	4,719	-	308,964	846,728
Deferred revenue	-	-	552,486	-	552,486
Noncurrent liabilities:					
Due within one year	2,808,855	-	-	-	2,808,855
Due in more than one year	51,310,825	-	-	-	51,310,825
Total liabilities	58,532,725	4,719	552,486	469,004	59,558,934
<b>Net Assets (Deficit)</b>					
Invested in capital assets - Net of related debt	-	-	6,129,064	-	6,129,064
Restricted:					
Debt service	7,941,938	-	-	-	7,941,938
Revolving loans	-	-	889,298	-	889,298
Unrestricted	(55,902,769)	(469,915)	387,371	198,796	(55,786,517)
Total net assets (deficit)	<u><u>\$ (47,960,831)</u></u>	<u><u>\$ (469,915)</u></u>	<u><u>\$ 7,405,733</u></u>	<u><u>\$ 198,796</u></u>	<u><u>\$ (40,826,217)</u></u>

# City of Pontiac, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Tax Increment Financing Authority:				
Commercial and industrial development	\$ 1,316,059	\$ 38,001	\$ -	\$ -
Interest on long-term debt	2,699,696	-	-	-
Total Tax Increment Financing Authority	4,015,755	38,001	-	-
Downtown Development Authority - Commercial and industrial development	38,204	-	-	-
Economic Development Corporation - Commercial and industrial development	178,199	-	-	-
Brownfield Redevelopment Authority - Commercial and industrial development	160,918	-	-	-
Total component units	<u>\$ 4,393,076</u>	<u>\$ 38,001</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
Investment income				
Miscellaneous				
Contributions from primary government				
Total general revenue				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year</b>				
<b>Net Assets (Deficit) - End of year</b>				

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

TIFA	Net (Expense) Revenue and Changes in Net Assets				Total
	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority		
\$ (1,278,058)	\$ -	\$ -	\$ -	\$ -	\$ (1,278,058)
(2,699,696)	-	-	-	-	(2,699,696)
(3,977,754)	-	-	-	-	(3,977,754)
-	(38,204)	-	-	-	(38,204)
-	-	(178,199)	-	-	(178,199)
-	-	-	(160,918)	-	(160,918)
(3,977,754)	(38,204)	(178,199)	(160,918)	-	(4,355,075)
3,176,574	307,234	-	(171,149)	-	3,312,659
108,010	(280)	5,600	(766)	-	112,564
-	3,150	-	-	-	3,150
5,278,451	-	-	-	-	5,278,451
8,563,035	310,104	5,600	(171,915)	-	8,706,824
4,585,281	271,900	(172,599)	(332,833)	-	4,351,749
(52,546,112)	(741,815)	7,578,332	531,629	-	(45,177,966)
<b>\$ (47,960,831)</b>	<b>\$ (469,915)</b>	<b>\$ 7,405,733</b>	<b>\$ 198,796</b>	<b>\$ -</b>	<b>\$ (40,826,217)</b>



### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of the City of Pontiac, 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 Pontiac, Michigan:

#### **Reporting Entity**

The City of Pontiac, Michigan was incorporated on March 15, 1861 and operated under a Council-Strong mayor form of government until March 19, 2009 when an Emergency Financial Manager was appointed. A preliminary review of the City's financial condition was performed by the State of Michigan on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and ultimately appointed an Emergency Financial Manager (EFM) to run the City on March 19, 2009. This EFM served until June 30, 2010. A second EFM was appointed and served from July 4, 2010 to September 8, 2011. An Emergency Financial Manager was appointed on September 12, 2011 and is currently serving the City under the provisions of Public Act 4 of 2011. Major operations of the City include police and fire protection, parks, library and recreation, public works, and general administrative services. In addition, the City owns and operates a water supply and sewage treatment system. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Units**

The General Building Authority (the "Authority") consists of five members: one member being the mayor by virtue of his office and four members to be appointed by the mayor subject to confirmation by the City Council. No member of the Pontiac City Council shall be eligible to appointment or membership in the Authority. No Authority member shall be financially interested in any contract with the Authority. 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 operations of the Authority are reported as a nonmajor debt service fund.

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

The General Employees' Retirement System has been blended into the City's financial statements. The governing body consists of 12 trustees as follows: the mayor of the City of Pontiac, the finance director of the City of Pontiac, a City Council member, three active members of the retirement system (elected), an employee representative, an elected retiree representative, three citizen trustees, and one deferred vested member of the retirement system formerly employed by Pontiac General Hospital. 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 system. The operations of the General Employees' Retirement System are reported as a pension fiduciary fund. Audited financial statements for the General Employees' Retirement System can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

The Police and Fire Retirement System has been blended into the City's financial statements. The system is governed by five members as follows: the mayor of the City; the finance director of the City; two additional members, one of whom shall be an active member of and elected by members of the fire department, and one of whom shall be an active member of and elected by members of the police department; and a fifth trustee elected by the other four trustees. 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 system. The operations of the police and fire retirement system are reported as a pension fiduciary fund. Audited financial statements for the police and fire retirement system can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

The General Employees' Retiree VEBA Trust has been blended into the City's financial statements. The governing body consists of five trustees as follows: the mayor of the City of Pontiac or the mayor's designee, the finance director of the City of Pontiac or his/her designee, a City Council member or its citizen designee, an employee representative, and a retiree representative. 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 system. The operations of the General Employees' Retiree VEBA Trust are reported as an other employee benefits fiduciary fund. Audited financial statements for the General Employees' Retiree VEBA Trust can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

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

The Police and Fire Retirement System VEBA has been blended into the City's financial statements. The governing body consists of five trustees: the mayor of the City of Pontiac, the finance director of the City of Pontiac, a fire trustee, a police trustee, and a fifth trustee elected by the other four trustees. 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 system. The operations of the Police and Fire Retirement System VEBA are reported as an other employee benefits fiduciary fund. Audited financial statements for the police and fire retirement system VEBA can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

#### **Discretely Presented Component Units**

- a. The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body consists of members appointed by the mayor, subject to approval by the City Council. There can be not less than 8 or more than 12 members and the chief executive officer (mayor) of the municipality. Not less than a majority of the members shall be persons having an interest in one property located in the downtown district. Not less than one of the members shall be a resident of the downtown district, if the downtown district has 100 or more persons residing in it. Internally prepared financial statements for the DDA can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.
- b. The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of a board of directors, which must consist of not less than nine persons, not more than three of whom shall be an officer or employee of the municipality. The chief executive officer and any member of the governing body of the municipality may serve on the board of directors. The chief executive officer (mayor), with the advice and consent of the governing body, shall appoint the members of the board of directors. Internally prepared financial statements for the EDC can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.

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

- c. The Tax Increment Financing Authority (TIFA) was created to promote economic growth and business development within the community. The TIFA's governing body consists of not less than 7 or more than 13 persons appointed by the mayor, subject to the approval of the City Council. A member shall hold office until the member's successor is appointed. An appointment to fill a vacancy shall be made by the mayor for the unexpired term only. Internally prepared financial statements for the TIFA can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.
- d. The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City of Pontiac and to promote economic growth for these properties through the use of a state-approved revolving fund loan. The properties included are listed as contaminated by the Environmental Protection Agency. Each authority shall be under the supervision and control of a board chosen by the governing body (City Council). The governing body may by majority vote designate the trustees of the board of the Tax Increment Financing Authority as the Brownfield Redevelopment Board, which City Council did by resolution on December 18, 1997. Internally prepared financial statements for the Brownfield Redevelopment Authority can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.

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

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial 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.

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

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.

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. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

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 fund:

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

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

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

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

**Parking Fund** - The Parking Fund accounts for the activities of City-owned parking structures and lots. Funding is provided primarily through user charges.

Additionally, the City reports the following special revenue, debt service, capital project, internal service, and fiduciary activities:

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

**Debt Service Funds** - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

**Capital Project Funds** - Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Internal Service Funds** - Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost-reimbursement basis.

#### **Fiduciary Funds**

**Pension and Other Postemployment Benefits Trust Funds** - The pension and other postemployment benefits trust funds account for the activities of the General Employees' Retirement System, Police and Fire Retirement System, General Employees' Retirement System VEBA, and Police and Fire Retirement System VEBA, which accumulates resources for pension and other postemployment benefit payments to qualified employees.

**Agency Funds** - The agency funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do 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)**

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.

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 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.

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 the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating 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.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31 and are payable in two installments. Summer taxes are considered delinquent on August 1, at which time penalties and interest are assessed. Winter taxes are considered delinquent on February 15 of the following year, at which time a 3 percent penalty is assessed. Summer and winter taxes (including any penalty and interest) are turned over to Oakland County for collection.

The City of Pontiac 2010 tax is levied and collectible on July 1, 2010 and is recognized as revenue in the year ended June 30, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

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

The 2010 taxable valuation of the City of Pontiac totaled approximately \$1.2 billion (a portion of which is abated and a portion of which is captured by the TIFA, DDA, and Brownfield), on which taxes levied consisted of 11.2737 mills for operating purposes, 2.8183 mills for refuse collection and disposal, 1.4091 mills for capital improvement, .5000 mills for senior activities, and .2200 mills for court judgments. This resulted in \$11.1 million for operating, \$2.76 million for refuse collection and disposal, \$1.38 million for capital improvement, \$0.49 million for senior activities, and \$0.26 million for the court judgments. These amounts are recognized in the respective General Fund, special revenue fund, and capital projects fund financial statements as tax revenue.

#### **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. Pooled investment income is generally allocated to each fund using a weighted average method.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that result from the allocation of available cash balances 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.

**Supplies and Prepaid Items** - Supplies 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.

**Restricted Assets** - The revenue bonds of the Water and Sewer Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. The City has also set cash aside for the future closure and post-closure care for the landfill. These assets have been classified as restricted assets in the Sanitation Fund.



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

**Capital Assets** - Capital assets, which include property, plant, and equipment, 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 \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Streets and bridges	10-20 years
Land improvements	10-50 years
Buildings and improvements	10-50 years
Machinery and equipment	5-20 years
Vehicles	5 years
Furniture and fixtures	5-10 years
Water and sewer systems	20-66 years
Street and traffic signs	10 years

**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 sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are 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.

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

**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 Statement No. 54 during the year.

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

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the emergency financial manager for use for specific purposes. Commitments are made and can be rescinded only via executive order by the emergency financial manager.
- **Assigned** - Intent to spend resources on specific purposes expressed by the emergency financial manager, who is appointed by the State of Michigan

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

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

**Comparative Data/Reclassifications** - Comparative data is not included in the City's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

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

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

- The City is in violation of the State Budget Act by incurring deficits and exceeding budgeted appropriations as discussed in the required supplemental information section of this report.
- Several funds of the City and one of the City's component units reported advances due to other funds and component units related to operating cash flow needs, as disclosed in Note 6. There are no formal repayment terms or interest provisions in place for any of these borrowings.

**Fund Deficits** - The City has accumulated unreserved fund deficits in the following individual funds:

Nonmajor governmental funds:	
MDEQ Grant Pontiac Creek Stormwater Plan	\$ 32,156
ML King construction	326,641
Clinton River Linear Park Trail	195,177
Total nonmajor governmental funds	553,974
Component units:	
Tax Increment Financing Authority District #3	2,557,976
Downtown Development Authority	481,197
Total component units	3,039,173
Total fund deficits	\$ 3,593,147

A deficit elimination plan is being filed with the Local Audit and Finance Division of the State of Michigan (see Note 18).

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

#### **MDEQ Grant Pontiac Creek Stormwater Plan Fund**

The deficit within the MDEQ Grant Fund is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 was \$32,156.

#### **ML King Construction Fund**

The deficit within the ML King Construction Fund is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City had a receivable and deferred revenue totaling \$612,908 at June 30, 2011. The recognition for the \$612,908 during the year ending June 30, 2012 will eliminate the June 30, 2011 deficit of \$326,641.

#### **Clinton River Linear Park Trail Fund**

The deficit within the Clinton River Fund is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City had a receivable and deferred revenue totaling \$229,079 at June 30, 2011. The recognition for the \$229,079 during the year ending June 30, 2012 will eliminate the June 30, 2011 deficit of \$195,177.

#### **Component Unit Deficit**

The Tax Increment Finance Authority #3 (TIFA 3) has an unassigned deficit of \$2,557,976 as of June 30, 2011. The TIFA 3 Fund in total does not have a deficit; it has positive fund balance of \$3,410,945. The unassigned deficit is a result of restricted fund balance related to debt service totaling \$5,968,921. Subsequent to year end, TIFA 3 defeased some of their outstanding bonds, resulting in approximately \$3,496,000 of restricted monies becoming unrestricted.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The Downtown Development Authority (DDA) has a fund deficit of \$481,197 as of June 30, 2011. During the current year, the DDA decreased the deficit by approximately \$272,000. The plan stated the DDA would reduce spending by \$100,000 per year over the next five years to eliminate the deficit. The City has made significant cuts in expenditures over the past few years; however, the significant annual loss in property tax capture has significantly outpaced the expenditure cuts. In February 2010, the State required the City to file an updated deficit elimination plan. As a result of the updated plan, the emergency financial manager passed the 2010/2011 budget eliminating all operating costs, budgeting only for the property tax capture. The City will continue to only budget for the property tax capture until the deficit is eliminated in approximately 2015.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension and other employee benefit trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated nine banks for the deposit of its funds. The City deposits and investment policies are in accordance with statutory authority.

The Police and Fire Retirement System (PFRS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The PFRS's deposits and investment policies are in accordance with statutory authority.

### Note 3 - Deposits and Investments (Continued)

The General Employees' Retirement System (GERS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The GERS's deposits and investment policies are in accordance with statutory authority.

The Police and Fire Retirement System VEBA (PFVEBA) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in mutual or commingled funds, but not the remainder of state statutory authority as listed above. The PFVEBA's deposits and investment policies are in accordance with statutory authority.

The General City Employees' Retirement System VEBA (GEVEBA) has designated one bank for the deposit of its funds. The GEVEBA's deposits and investments are in accordance with statutory authority.

The City, pension funds, and other employee benefit trust funds' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the Police and Fire Retirement System, General Employees' Retirement System, Police and Fire Retirement System VEBA, and General City Employees' Retirement System VEBA balances as of December 31, 2010 because, as disclosed in Notes 10-11 and Notes 13-15, these funds are maintained on a calendar year basis.

#### **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.

**City** - The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,757,313 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.

**Police and Fire Retirement System** - The PFRS does not have a deposit policy for custodial credit risk. At year end, the system had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The PFRS continues to evaluate 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.

### Note 3 - Deposits and Investments (Continued)

**General Employees' Retirement System** - The GERS does not have a deposit policy for custodial credit risk. At year end, the GERS had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The GERS continues to evaluate 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.

**Police and Fire Retirement System VEBA** - The PFVEBA does not have a deposit policy for custodial credit risk. At year end, the PFVEBA had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

**General City Employees' Retirement System VEBA** - The GEVEBA does not have a deposit policy for custodial credit risk. At year end, the GEVEBA had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

#### 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.

**City** - The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
U.S. government agency securities	\$ 2,014,326	6 years
Bank investment pool	11,335,971	60 days
Guaranteed investment contracts	984,818	1 year

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System** - The PFRS's investment policy restricts the average duration of an actively managed portfolio to not differ from the benchmark duration by more than 30 percent. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Asset-backed securities	\$ 839,246	.145 years
Asset-backed securities	329,937	Unavailable
Commercial mortgage-backed securities	330,002	1.17 years
Corporate and other bonds	5,970,473	5.28 years
Corporate and other bonds	16,327,963	Unavailable
U.S. governmental investments:		
Government bonds	9,155,058	6.99 years
Government bonds	852,558	5.75 years
Government mortgage-backed securities	9,044,723	3.76 years
Government mortgage-backed securities	1,924,272	Unavailable
Government mortgage-backed securities	1,863,196	11/1/2038
Government mortgage-backed securities	716,291	5/25/2040
Government mortgage-backed securities	435,837	4/20/2037
Government mortgage-backed securities	340,482	7/25/2040
Nongovernment-backed CMOs	121,108	.01 years
Nongovernment-backed CMOs	35,177	Unavailable
Collateral pool	33,289,538	.07 years



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

**General Employees' Retirement System** - The GERS's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Asset-backed securities	\$ 7,196,499	1.14 years
Asset-backed securities	474,648	Unavailable
Commercial mortgage pools	6,515,646	1.85 years
Corporate and other bonds	54,603,479	3.52 years
Corporate and other bonds	356,856	Unavailable
U.S. governmental investments:		
Government agencies	3,339,760	8.18 years
Government bonds	4,784,213	8.90 years
Government issued commercial mortgage backed	189,594	4.78 years
Government mortgage-backed securities	11,451,834	2.88 years
Government mortgage-backed securities	6,949,298	Unavailable
Nongovernment-backed CMOs	913,977	.15 years
Municipal/Provincial bonds	1,877,680	3.43 years
Municipal/Provincial bonds	2,303,819	Unavailable
Short-term bills and notes	1,189,836	.13 years
Short-term investment funds	14,346,018	Unavailable
Collateral pool	78,272,910	.07 years

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System VEBA** - The PFVEBA's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Corporate:		
Asset backed	\$ 282,548	4.25 years
Bonds	2,664,233	5.8 years
Collateralized mortgage obligations	1,297,252	31.48 years
Foreign bonds	528,885	6.84 years
U.S. government:		
Collateralized mortgage obligations	99,545	9.41 years
Mortgage backed	2,380,071	27.81 years
Other	424,881	20.08 years
Treasuries, notes, and bonds	1,791,616	1.83 years

**General City Employees' Retirement System VEBA** - The system does not have an investment policy that restricts investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Mutual fund	\$ 173,666	7.0 years

### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

**City** - The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investments pools	\$ 12,741,875	AAAm	Standard & Poor's
U.S. government agency securities	2,014,326	AAA	Standard & Poor's
Guaranteed investment contracts	984,818	AA	Standard & Poor's
Bank investment pool	22,002,643	Not rated	N/A

**Police and Fire Retirement System** - The PFRS's investment policy limits investments in domestic fixed-income securities to not less than a B rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's AI or Moody's P- I; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating
Asset-backed securities	\$ 372,778	Aaa
Asset-backed securities	516,410	Aa
Asset-backed securities	156,061	A
Asset-backed securities	123,935	Bbb
Corporate bonds	1,557,895	A
Corporate bonds	4,412,577	Bbb
U.S. government bonds	5,713,239	Aaa
Nongovernment-backed securities	121,108	Aaa
Nongovernment-backed securities	35,177	Unrated
Commercial mortgage-backed securities	330,002	Aaa
Comingled funds	6,857,744	AAA
Comingled funds	1,959,356	AA
Comingled funds	1,632,796	A
Comingled funds	816,398	BBB
Comingled funds	5,061,669	Unrated
Other fixed-income pool	20,232,055	AAA
Other fixed-income pool	1,698,831	AA
Other fixed-income pool	3,688,402	A
Other fixed-income pool	2,870,341	BAA
Other fixed-income pool	14,252	BAI
Short-term investment funds	10,382,034	AI +
Collateral pool	33,289,538	A+

### Note 3 - Deposits and Investments (Continued)

**General Employees' Retirement System** - The GERS's investment policy limits investments in domestic fixed-income securities to not less than a CCC rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating
Asset-backed securities	\$ 5,772,474	Aaa
Asset-backed securities	541,300	Aa
Asset-backed securities	245,876	A
Asset-backed securities	223,785	Ba
Asset-backed securities	474,648	Caa
Asset-backed securities	413,064	Unrated
Commercial mortgage-backed securities	3,408,141	Aaa
Commercial mortgage-backed securities	360,963	Aa
Commercial mortgage-backed securities	2,746,541	Unrated
Corporate bonds	530,858	Aaa
Corporate bonds	3,943,822	Aa
Corporate bonds	12,226,512	A
Corporate bonds	13,510,841	Baa
Corporate bonds	892,500	Ba
Corporate bonds	11,767,900	B
Corporate bonds	10,000,745	Caa
Corporate bonds	2,087,158	Unrated
U.S governmental agencies	2,897,617	Aaa
U.S governmental agencies	442,142	A
U.S governmental agency mortgage-backed securities	108,603	Unrated
Nongovernment-backed CMOs	31,252	Aaa
Nongovernment-backed CMOs	882,725	Unrated
Municipal/Provincial bonds	968,611	Aaa
Municipal/Provincial bonds	551,222	Aa
Municipal/Provincial bonds	875,000	A
Municipal/Provincial bonds	1,786,666	Unrated
Short-term investment funds	14,346,018	Unrated
Collateral pool	78,272,910	A1+

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System VEBA** - The PFVEBA has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Corporate - Asset-backed securities	\$ 99,850	AAA
Corporate - Asset-backed securities	182,679	Not rated
Corporate bonds	183,935	AA
Corporate bonds	832,221	A
Corporate bonds	1,569,316	BBB
Corporate bonds	78,762	BB
Corporate - Collateralized mortgage obligations	192,204	AAA
Corporate - Collateralized mortgage obligations	241,055	AA
Corporate - Collateralized mortgage obligations	764,148	A
Corporate - Collateralized mortgage obligations	99,845	Not rated
Foreign bonds	113,135	AA
Foreign bonds	224,021	A
Foreign bonds	191,729	BBB
U.S. government - Collateralized mortgage obligations	99,545	Not rated
U.S. government - Mortgage-backed securities	2,380,071	Not rated
U.S. government - Other	424,881	Not rated
U.S. government - Treasuries, notes, and bonds	1,791,616	AAA

**General City Employees' Retirement System VEBA** - The GEVEBA has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual fund	\$ 133,202	AAA	Moody's
Mutual fund	8,162	Aa	Moody's
Mutual fund	17,540	A	Moody's
Mutual fund	14,762	Baa	Moody's

#### Concentration of Credit Risk

**City** - The City places no limit on the amount it may invest in any one issuer. There is no concentration of credit risk to disclose.

**Police and Fire Retirement System** - There is no concentration of credit risk to disclose.

**General Employees' Retirement System** - There is no concentration of credit risk to disclose.

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System VEBA** - There is no concentration of credit risk to disclose.

**General City Employees' Retirement System VEBA** - There is no concentration of credit risk to disclose.

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates.

**City** - The City does not have any securities subject to foreign currency risk.

**Police and Fire Retirement System** - The PFRS limits total assets in international equities and fixed income to 14 percent of the total pension system's market value. There were no securities subject to foreign currency risk.

**General Employees' Retirement System** - The GERS limits total assets in international equities and fixed income funds to 9 percent of the total pension systems' market value. There were no securities subject to foreign currency risk.

**General City Employees' Retirement System VEBA** - The GEVEBA does not have any securities subject to foreign currency risk.

**Police and Fire Retirement System VEBA** - The PFVEBA places no limit on the amount of international stock funds. The following securities contained in the international stock fund are subject to foreign currency risk:

Security	Fair Value
European euro	\$ 2,293,957
Japanese yen	686,694
British pound	701,622
Latin American peso	308,515
Other	696,646

### Note 3 - Deposits and Investments (Continued)

#### Securities Lending

**Police and Fire Retirement System** - As permitted by state statutes and under the provisions of a securities lending authorization agreement, the PFRS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The PFRS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2010, only United States currency was received as collateral.

The PFRS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The PFRS and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2010 was 25 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2010, the PFRS had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the PFRS as of December 31, 2010 was \$33,289,538 and \$32,517,548, respectively.

**General Employees' Retirement System** - As permitted by state statutes and under the provisions of a securities lending authorization agreement, the GERS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The GERS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2010, only United States currency was received as collateral.

The GERS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank; however, losses resulted due to fair market value decline of the collateral held.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 3 - Deposits and Investments (Continued)

The GERS and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2010 was 25 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2010, the GERS had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the GERS as of December 31, 2010 was \$78,272,910 and \$76,295,300, respectively.

**Police and Fire Retirement System VEBA** - The PFVEBA had no securities lending transactions.

**General City Employees' Retirement System VEBA** - The GEVEBA had no securities lending transactions.

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total Governmental Activities	Water Fund	Sewer Fund	Parking Fund	Golf Course Fund	Total Business-type Activities
Receivables:								
Taxes	\$ 5,189,843	\$ 44,040	\$ 5,233,883	\$ -	\$ -	\$ 3,470	\$ -	\$ 3,470
Special assessments	-	-	-	14,513	43,352	-	-	57,865
Accounts	-	-	-	4,863,622	3,830,384	-	-	8,694,006
Other	1,971,961	1,596,504	3,568,465	1,886	6,920	28,625	25,980	63,411
Intergovernmental	3,675,972	2,510,901	6,186,873	-	-	-	-	-
Less allowance for uncollectibles	(3,209,079)	(947,559)	(4,156,638)	(285,000)	(270,000)	(3,000)	-	(558,000)
Net receivables	<u>\$ 7,628,697</u>	<u>\$ 3,203,886</u>	<u>\$ 10,832,583</u>	<u>\$ 4,595,021</u>	<u>\$ 3,610,656</u>	<u>\$ 29,095</u>	<u>\$ 25,980</u>	<u>\$ 8,260,752</u>



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 4 - Receivables and Deferred Revenue (Continued)

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 Funds		
	Unavailable	Unearned	Total
Delinquent property taxes and payments in lieu of taxes	\$ 38,048	\$ -	\$ 38,048
Income tax receivables	1,000,000	-	1,000,000
Police services receivables	160,000	-	160,000
Road maintenance receivables	100,148	-	100,148
Grant receivables	874,143	207,520	1,081,663
Other receivables	19,987	-	19,987
PF VEBA receivables	795,269	-	795,269
Total	<u>\$ 2,987,595</u>	<u>\$ 207,520</u>	<u>\$ 3,195,115</u>

### Note 5 - Capital Assets

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

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
<b>Governmental Activities</b>				
Other governmental capital assets:				
Capital assets not being depreciated:				
Land	\$ 19,439,847	\$ 1,582,469	\$ -	\$ 21,022,316
Construction in progress	8,241,431	13,094,845	(5,366,795)	15,969,481
Subtotal	27,681,278	14,677,314	(5,366,795)	36,991,797
Capital assets being depreciated:				
Streets and bridges	56,784,179	3,024,913	3,666,055	63,475,147
Buildings and improvements	46,019,845	15,937	-	46,035,782
Machinery and equipment	14,139,712	63,417	(14,942)	14,188,187
Vehicles	11,148,352	-	-	11,148,352
Office furnishings	8,558,547	129,816	(548,758)	8,139,605
Land improvements	6,729,497	500,927	-	7,230,424
Subtotal	143,380,132	3,735,010	3,102,355	150,217,497
Accumulated depreciation:				
Streets and bridges	21,714,862	2,880,963	(105,588)	24,490,237
Buildings and improvements	28,164,445	1,050,923	-	29,215,368
Machinery and equipment	13,468,720	479,196	(747)	13,947,169
Vehicles	11,148,352	-	-	11,148,352
Office furnishings	8,547,414	22,591	(548,758)	8,021,247
Land improvements	5,887,510	677,399	-	6,564,909
Subtotal	88,931,303	5,111,072	(655,093)	93,387,282
Net capital assets being depreciated	54,448,829	(1,376,062)	3,757,448	56,830,215
Net other governmental capital assets	\$ 82,130,107	\$ 13,301,252	\$ (1,609,347)	\$ 93,822,012
Internal Service Fund capital assets:				
Capital assets being depreciated:				
Buildings and improvements	\$ 52,998	\$ -	\$ -	\$ 52,998
Machinery and equipment	1,646,371	116,792	(55,312)	1,707,851
Vehicles	5,296,631	-	(99,482)	5,197,149
Office furnishings	10,618	-	-	10,618
Subtotal	7,006,618	116,792	(154,794)	6,968,616
Accumulated depreciation:				
Buildings and improvements	36,091	6,592	-	42,683
Machinery and equipment	1,311,697	99,236	(53,331)	1,357,602
Vehicles	1,943,659	591,435	(99,479)	2,435,615
Office furnishings	8,626	1,327	-	9,953
Subtotal	3,300,073	698,590	(152,810)	3,845,853
Net capital assets being depreciated	\$ 3,706,545	\$ (581,798)	\$ (1,984)	\$ 3,122,763
Governmental capital assets not being depreciated	\$ 27,681,278	\$ 14,677,314	\$ (5,366,795)	\$ 36,991,797
Net governmental capital assets being depreciated	58,155,374	(1,957,860)	3,755,464	59,952,978
Net governmental activity capital assets	\$ 85,836,652	\$ 12,719,454	\$ (1,611,331)	\$ 96,944,775

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
<b>Water Fund</b>				
Capital assets not being depreciated:				
Land	\$ 195,436	\$ -	\$ -	\$ 195,436
Construction in progress	398,964	1,987,358	(153,852)	2,232,470
Subtotal	594,400	1,987,358	(153,852)	2,427,906
Capital assets being depreciated:				
Water systems	22,708,301	-	-	22,708,301
Buildings and improvements	2,929,104	-	-	2,929,104
Machinery and equipment	8,165,680	308,967	-	8,474,647
Vehicles	1,787,697	-	(90,373)	1,697,324
Land improvements	324,392	-	-	324,392
Subtotal	35,915,174	308,967	(90,373)	36,133,768
Accumulated depreciation:				
Water systems	10,698,449	503,775	-	11,202,224
Buildings and improvements	1,666,928	50,154	-	1,717,082
Machinery and equipment	4,759,202	414,487	-	5,173,689
Vehicles	1,759,677	18,680	(90,373)	1,687,984
Land improvements	230,999	20,300	-	251,299
Subtotal	19,115,255	1,007,396	(90,373)	20,032,278
Net capital assets being depreciated	16,799,919	(698,429)	-	16,101,490
Net Water Fund capital assets	<u>\$ 17,394,319</u>	<u>\$ 1,288,929</u>	<u>\$ (153,852)</u>	<u>\$ 18,529,396</u>
<b>Sewer Fund</b>				
Capital assets not being depreciated:				
Land	\$ 325,964	\$ -	\$ -	\$ 325,964
Construction in progress	3,604,403	8,519,118	(1,707,283)	10,416,238
Subtotal	3,930,367	8,519,118	(1,707,283)	10,742,202
Capital assets being depreciated:				
Sewer systems	49,104,565	1,675,659	-	50,780,224
Buildings and improvements	11,708,563	-	-	11,708,563
Machinery and equipment	6,225,571	-	-	6,225,571
Vehicles	2,088,401	-	(54,233)	2,034,168
Land improvements	241,302	-	-	241,302
Subtotal	69,368,402	1,675,659	(54,233)	70,989,828
Accumulated depreciation:				
Sewer systems	34,359,969	1,616,820	-	35,976,789
Buildings and improvements	9,032,625	145,522	-	9,178,147
Machinery and equipment	5,741,531	66,879	-	5,808,410
Vehicles	1,875,497	37,292	(54,233)	1,858,556
Land improvements	141,274	11,124	-	152,398
Subtotal	51,150,896	1,877,637	(54,233)	52,974,300
Net capital assets being depreciated	18,217,506	(201,978)	-	18,015,528
Net Sewer Fund capital assets	<u>\$ 22,147,873</u>	<u>\$ 8,317,140</u>	<u>\$ (1,707,283)</u>	<u>\$ 28,757,730</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
<b>Business-type Activities (Continued)</b>				
<b>Parking Fund</b>				
Capital assets not being depreciated -				
Land	\$ 3,166,454	\$ -	\$ -	\$ 3,166,454
Capital assets being depreciated:				
Buildings and improvements	33,679,528	-	-	33,679,528
Machinery and equipment	78,976	-	-	78,976
Vehicles	259,362	-	(110,999)	148,363
Land improvements	646,676	-	-	646,676
Traffic signs	57,858	-	-	57,858
Subtotal	34,722,400	-	(110,999)	34,611,401
Accumulated depreciation:				
Buildings and improvements	22,502,810	533,579	-	23,036,389
Machinery and equipment	71,205	2,775	-	73,980
Vehicles	259,360	-	(110,999)	148,361
Land improvements	646,676	-	-	646,676
Traffic signs	57,858	-	-	57,858
Subtotal	23,537,909	536,354	(110,999)	23,963,264
Net capital assets being depreciated	11,184,491	(536,354)	-	10,648,137
Net Parking Fund capital assets	<u>\$ 14,350,945</u>	<u>\$ (536,354)</u>	<u>\$ -</u>	<u>\$ 13,814,591</u>
<b>Golf Course Fund</b>				
Capital assets not being depreciated -				
Land	\$ 733,760	\$ -	\$ -	\$ 733,760
Capital assets being depreciated:				
Buildings and improvements	914,982	-	-	914,982
Machinery and equipment	438,748	-	-	438,748
Land improvements	4,526,155	-	-	4,526,155
Subtotal	5,879,885	-	-	5,879,885
Accumulated depreciation:				
Buildings and improvements	631,133	-	-	631,133
Machinery and equipment	390,905	-	-	390,905
Land improvements	3,304,997	-	-	3,304,997
Subtotal	4,327,035	-	-	4,327,035
Net capital assets being depreciated	1,552,850	-	-	1,552,850
Net Golf Course Fund capital assets	<u>\$ 2,286,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,286,610</u>
Net business-type activity capital assets	<u>\$ 56,179,747</u>	<u>\$ 9,069,715</u>	<u>\$ (1,861,135)</u>	<u>\$ 63,388,327</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets (Continued)

Component Unit - Economic Development Corporation	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Capital assets being depreciated - Buildings and improvements	\$ 7,004,644	\$ -	\$ -	\$ 7,004,644
Accumulated depreciation - Buildings and improvements	700,464	175,116	-	875,580
Net capital assets	<u>\$ 6,304,180</u>	<u>\$ (175,116)</u>	<u>\$ -</u>	<u>\$ 6,129,064</u>

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

Governmental activities:

General government	\$ 1,069,428
Public safety	465,894
Public works	3,575,750
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>698,590</u>
Total governmental activities	<u>\$ 5,809,662</u>

Business-type activities:

Water	\$ 1,007,396
Sewer	1,877,637
Parking	<u>536,353</u>
Total business-type activities	<u>\$ 3,421,386</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Governmental activities - Nonmajor funds:		
CVC infrastructure improvements	\$ 245,004	\$ 434,861
Martin Luther King Road improvements (right-of-way purchase)	1,064,313	210,687
Martin Luther King Road improvements (construction phase)	<u>172,740</u>	<u>1,039,960</u>
Total governmental activities - Nonmajor funds	1,482,057	1,685,508
Business-type activities:		
Water system improvements	2,242,232	704,781
Sewer system improvements	<u>8,099,287</u>	<u>11,732,981</u>
Total business-type activities	<u>10,341,519</u>	<u>12,437,762</u>
Total primary government	<u>\$ 11,823,576</u>	<u>\$ 14,123,270</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### 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 fund - District Court	\$ 580,000
	Nonmajor governmental fund - Major Streets	622,624
	Nonmajor governmental fund - Clinton River Linear Park Trail	113,670
	Nonmajor governmental funds - Community Development Block Grant	523,158
	Nonmajor governmental fund - Home Investment Partnerships Grant	29,000
	Nonmajor governmental fund - Homeless Shelter Grant	<u>46,000</u>
	Total General Fund	1,914,452
Nonmajor governmental funds	Nonmajor governmental funds	225,636
Sewer Fund	Nonmajor governmental funds - MDEQ Grant Pontiac Creek Stormwater Plan	<u>32,156</u>
	Total	<u>\$ 2,172,244</u>
Receivable Fund	Payable Fund	Amount
<b>Advances from/to Other Funds and Component Units</b>		
Internal Service Fund	General Fund	\$ 1,576,876
Nonmajor governmental fund - Cable	General Fund	895,000
Nonmajor governmental fund - Capital improvement	General Fund	<u>1,357,438</u>
	Total	<u>\$ 3,829,314</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

Receivable Fund	Payable Fund	Amount
<b>Advances from/to Primary Government and Component Units</b>		
Internal Service Fund	Component Unit - Tax Increment Financing Authority	\$ 3,880,000
Component Units - Downtown Development Authority	Component Unit - Tax Increment Financing Authority	477,000
	Total	<u>\$ 4,357,000</u>

The following interfund balances are between the City and fiduciary funds. The fiduciary funds of the City are presented as of December 31, 2010:

Receivable Fund	Amount	Payable Fund	Amount
General Fund and Retirement Administration Agency Fund	\$ 160,911	General Employees' Retirement System	\$ 126,012
General Employees' Retirement System	-	Internal Service Funds	215,221
General Fund and Retirement Administration Agency Fund	827,973	Police and Fire Retirement System VEBA	2,868,098
General Fund and Retirement Administration Agency Fund	78,557	Police and Fire Retirement System	-
Police and Fire Retirement System	272,529	Internal Service Funds	143,160

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

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Nonmajor governmental fund - District Court (1)	\$ 2,458,274
	Nonmajor governmental fund - Sanitation (1)	17,690
	Nonmajor governmental fund - CDBG (1)	84,040
	Nonmajor governmental fund - Neighborhood Stabilization Fund (1)	45,129
	Nonmajor business-type fund - Golf Course (1)	13,000
	Parking Fund (1)	804,804
	Total General Fund	<u>3,422,937</u>



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

Fund Providing Resources	Fund Receiving Resources	Amount
Nonmajor governmental funds - Major Streets	Nonmajor governmental fund - Local Streets (3)	\$ 77,915
	Nonmajor governmental fund - Debt service funds (4)	67,210
	Nonmajor governmental fund - Capital Project Fund (5)	128,764
Nonmajor governmental fund - District Court	Parking Fund	41,888
Nonmajor governmental fund - Local Streets	Nonmajor governmental funds - Debt service funds (4) (5)	76,690
Nonmajor governmental fund - MDEQ Grant Pontiac Creek	General Fund	18,000
Nonmajor governmental funds - Capital Project Funds	Internal Service Fund - Equipment Revolving Fund	305,846
	Nonmajor governmental funds - ML King Construction (5)	576,000
	Total nonmajor governmental funds	1,292,313
Internal Service Fund - Workers' Compensation	General Fund (2)	523,498
	Nonmajor governmental funds (2)	34,080
	Water Fund (2)	77,106
	Sewer Fund (2)	61,779
	Parking Fund (2)	1,859
	Internal Service Fund - Insurance Fund (2)	502
	Internal Service Fund - Equipment Revolving Fund (2)	17,247
	Total Internal Service Fund - Workers' Compensation	716,071
Water Fund	Internal Service Fund	135,000
	Sewer Fund	135,000
	Total Water Fund	270,000
Sewer Fund	Internal Service Fund	85,000
	Other governmental funds (6)	4,230
	Total Sewer Fund	89,230
	Total	\$ 5,790,551

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

- (1) Transfer to subsidize operating shortfalls
- (2) Return of previous contributions for IBNR reserve that was in excess of necessary amount
- (3) Transfer from Major Road Fund to Local Road Fund as allowed by Act 51
- (4) Transfer for payments of general obligation debt service
- (5) Transfers to cover road construction costs
- (6) Transfers to Stormwater Permit Activity Fund for related costs

### 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. Net pension obligations are the result of annual required contributions not being made to the City's Retirement Systems. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt activity can be summarized as follows:

Governmental Activities	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1995 Michigan Department of Transportation Bonds - Amount of issue - \$1,450,000 - Maturing through 2011	3.850% - 6.125%	\$50,000- \$140,000	\$ 140,000	\$ -	\$ (140,000)	\$ -	\$ -
2000 Municipal Golf Course bonds: Amount of issue - \$6,505,000 - Maturing through 2012	5.965%	\$560,000- \$710,000	1,380,000	-	(670,000)	710,000	710,000
2002 General Building Authority Bonds #M043: Amount of issue - \$10,000,000 - Maturing through 2012	4.625%- 4.700%	\$125,000- \$315,000	615,000	-	(300,000)	315,000	315,000
2006 Fiscal Stabilization Bonds: Amount of issue - \$21,490,000 - Maturing through 2021 Add: Unamortized bond premium	3.700%- 5.000%	\$1,130,000- \$2,050,000	17,965,000 734,731	-	(1,275,000) (66,794)	16,690,000 667,937	1,340,000 -
2006 Michigan Department of Transportation State Infrastructure Bank Loan: Amount of issue - \$937,500 - Maturing through 2011	3.000%	\$176,582- \$198,745	198,745	-	(198,745)	-	-
2006 General Motors Corporation Property Tax Reimbursement agreement, \$15,000,000 Due in various annual installments over a ten-year period	N/A	Various	10,500,000	-	-	10,500,000	-
2011 General Motors and Motors Liquidation Company Tax Appeal Settlement - Due in four annual installments through 2015	N/A	\$476,145	-	1,904,580	-	1,904,580	476,145

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities (Continued)</b>							
Capital lease obligations:							
Capital Improvement Fund - Fire department	Various	Various	\$ 749,547	\$ -	\$ (116,936)	\$ 632,611	\$ 123,039
Capital lease obligations - Internal Service Fund	Various	Various	3,538,290	-	(586,491)	2,951,799	626,191
Other obligations:							
Compensated absences, separation, and longevity accrual		Various	3,203,960	-	(842,140)	2,361,820	1,464,948
Net pension obligation - Police and Fire Retirement System			-	824,166	-	824,166	-
Other postemployment benefit obligations			10,734,062	12,998,413	-	23,732,475	-
Landfill closure and postclosure costs			2,499,734	-	-	2,499,734	-
Total governmental activities			<u>\$ 52,259,069</u>	<u>\$ 15,727,159</u>	<u>\$ (4,196,106)</u>	<u>\$ 63,790,122</u>	<u>\$ 5,055,323</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
Parking Fund:							
General obligation bonds and notes:							
2006 General Motors Corporation							
Property Tax Reimbursement Agreement, \$15,000,000							
Due in various annual installments over a ten-year period							
	N/A	Various	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -
Other postemployment benefit obligation							
			71,995	-	(71,995)	-	-
Water Fund:							
Revenue bonds:							
1995 Water Supply System:							
Amount of issue - \$3,675,000 - Maturing through 2015							
	5.400%- 8.250%	\$70,000- \$300,000	1,350,000	-	(240,000)	1,110,000	255,000
2002 Water Supply System:							
Amount of issue - \$1,375,000 - Maturing through 2022							
	5.000%- 5.800%	\$45,000- \$105,000	965,000	-	(60,000)	905,000	65,000
2010 Water Supply System - DWRF Project 7307-01							
Amount of issue - \$1,375,000 Maturing through 2021							
	2.500%	\$46,733- \$100,000	-	846,733	-	846,733	80,000
Other postemployment benefit obligations							
			522,159	834,452	-	1,356,611	-
Sewer Fund:							
Revenue bonds:							
2002 Sewage Disposal System:							
Amount of Issue - \$5,000,000 - Maturing through 2022							
	4.750% - 5.850%	\$165,000- \$385,000	3,500,000	-	(215,000)	3,285,000	225,000
2010 Sewage Disposal System - SRF Project 5408-01							
Amount of issue - \$9,695,000 Maturing through 2024							
	2.500%	\$1,255- \$500,000 \$49,785-	-	5,241,255	-	5,241,255	380,000
Capital lease obligation - Vactor							
	4.850%	\$57,393	57,393	-	(57,393)	-	-
Other postemployment benefit obligations							
			384,522	781,190	-	1,165,712	-
Total bonds payable							
			\$ 7,351,069	\$ 7,703,630	\$ (644,388)	\$ 14,410,311	\$ 1,005,000

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component Unit Activities</b>							
Tax Increment Finance Authority:							
Revenue bonds:							
2002 TIFA Bonds #M0005:							
Amount of issue - \$11,245,000	3.000%-	\$215,000-	\$ 3,705,000	\$ -	\$ (225,000)	\$ 3,480,000	\$ 235,000
Maturing through 2022	5.625%	\$1,180,000	(303,231)	-	25,269	(277,962)	-
Less unamortized bond discount							
2002 TIFA Bonds #M006:							
Amount of issue - \$28,675,000	4.500% -	\$180,000-	3,855,000	-	(595,000)	3,260,000	3,260,000
Maturing through 2031	6.250%	\$670,000	(203,427)	-	18,494	(184,933)	-
Less unamortized bond discount							
2007 C TIFA Bonds:							
Amount of issue - \$31,080,000	3.500% -	\$590,000-	29,470,000	-	(570,000)	28,900,000	590,000
Maturing through 2031	5.000%	\$1,985,000	(895,487)	-	42,642	(852,845)	-
Less unamortized bond discount							
Other obligations:							
Lease payable - City of Pontiac	4.625% -	\$125,000 -	615,000	-	(300,000)	315,000	315,000
General Building Authority	4.700%	\$315,000					
County contractual agreement:							
2006 County Building Authority							
Refunding Bonds:							
Amount of issue - \$8,160,000 -	3.250%-	\$50,000 -	7,860,000	-	(50,000)	7,810,000	50,000
Maturing through 2027	5.000%	\$2,850,000					
County contractual agreement:							
2006 County Building Authority							
Bonds:							
Amount of issue - \$11,500,000 -	5.000% -	\$350,000 -	10,000,000	-	(425,000)	9,575,000	425,000
Maturing through 2026	5.400%	\$900,000					
2011 General Motors and Motors							
Liquidation Company Tax Appeal							
Settlement - Due in four annual							
installments through 2015							
	N/A	\$523,855	-	2,095,420	-	2,095,420	523,855
Total bonds payable			\$ 54,102,855	\$ 2,095,420	\$ (2,078,595)	\$ 54,119,680	\$ 5,398,855

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

Year Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 3,590,375	\$ 1,102,217	\$ 4,692,592	\$ 1,005,000	\$ 455,984	\$ 1,460,984	\$ 2,808,855	\$ 2,516,718	\$ 5,325,573
2013	2,679,281	929,154	3,608,435	1,045,000	418,366	1,463,366	2,868,855	2,409,170	5,278,025
2014	2,753,248	806,676	3,559,924	1,090,000	372,748	1,462,748	3,028,855	2,295,186	5,324,041
2015	2,555,633	698,132	3,253,765	1,135,000	324,499	1,459,499	3,188,855	2,188,692	5,377,547
2016	2,193,110	588,009	2,781,119	865,000	273,583	1,138,583	2,820,000	2,074,376	4,894,376
2017-2021	9,432,343	1,449,801	10,882,144	4,771,733	841,006	5,612,739	15,705,000	8,365,186	24,070,186
2022-2026	-	-	-	1,476,255	65,448	1,541,703	16,295,000	4,369,547	20,664,547
2027-2031	-	-	-	-	-	-	8,720,000	1,133,314	9,853,314
Total	\$ 23,203,990	\$ 5,573,989	\$ 28,777,979	\$ 11,387,988	\$ 2,751,634	\$ 14,139,622	\$ 55,435,420	\$ 25,352,189	\$ 80,787,609

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

Compensated absences and separation accruals of \$2,361,820 are payable upon retirement or termination of eligible employees; therefore, specific payment dates are not determinable. Also, the landfill closure and postclosure cost accrual of \$2,499,734 has no fixed maturity dates; therefore, they have been excluded from the above summary.

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by the General Fund and debt service funds. Lease payments are made directly from the fund incurring the expenditure. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. The landfill closure and postclosure costs represent the cumulative amount of closure and postclosure care costs reported to date based on the use of 100 percent of the estimated capacity of the landfill.

**No Commitment Debt** - The Economic Development Corporation (the "Corporation"), a component unit, issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities which are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to pay principal and interest obligations of the bond issues and which further provide that the property be transferred to the lessee at the time that the indebtedness is paid in full. The debt instruments specifically indicate that the lender looks to the lessee for payment of the debt and that the Corporation and its officers are held harmless except to the extent of rentals they collect. The lease property and the bonds and notes are not considered to be assets or general obligations of the Corporation and, therefore, are not recognized in the financial statements of the City. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source. As of June 30, 2011, no commitment debt outstanding has been determined.

**Defeased Debt** - In the prior year, 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 account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2011, \$28,493,213 of bonds outstanding is considered defeased.

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

#### Future Revenue Pledged for Debt Payment

**Governmental Activities** - The City has pledged its state-shared revenue to repay the above 2006 fiscal stabilization bonds which were originally issued for \$21,490,000. Proceeds from the bonds were used to finance prior years' operating expenses of the General Fund. The bonds are payable solely from state-shared revenue. The remaining principal and interest to be paid on the bonds total \$21,548,936. During the current year, state-shared revenue was \$10,620,907 compared to annual debt requirements of \$2,154,813.

**2006 GM Property Tax Reimbursement Agreement** - The City has a property tax refund obligation to General Motors Corporation (GM) as the result of a 1991 settlement related to the assessed valuation of GM property located within the City for fiscal years 1986 through 1992. The balance of the liability is \$11,000,000, of which \$10,500,000 is payable from the following governmental funds: General Fund, Sanitation Fund, Chapter 20 Drain Fund, and Capital Improvement Fund. The remaining \$500,000 is payable from the Parking Fund.

The repayment agreement requires an annual payment, payable 60 days after the receipt of the annual audit report and is based on an economic growth formula (the agreement requires no payment in any year the economic growth formula produces a negative amount). The formula for payment due in the 2010/2011 fiscal year resulted in a negative amount; therefore, there is no current portion due on this liability.

The economic growth formula is determined by the increase in the sum of all property tax and income tax revenue to the City's General Fund over a baseline amount. The 2010/2011 General Fund property tax and income tax revenue was \$20,740,423. The baseline amount of \$28,510,813 was established using the 2005/2006 audited financial statements. The amount due GM annually beginning in the City's 2007/2008 fiscal year will be the difference between the annual property tax and income tax collections and the base year multiplied by a percentage. There was no amount due in the City's 2007/2008 through 2010/2011 fiscal years. The percentage amounts are as follows:

- 2007/2008 - 10 percent
- 2008/2009 - 15 percent
- 2009/2010 - 20 percent
- 2010 and after - 25 percent

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

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

**2011 GM Tax Appeal Settlement** - The City entered into an agreement with General Motors and Motors Liquidation Company in fiscal year 2011 to settle a property tax appeal for a total amount due of \$4,000,000 to be paid in annual installments of \$1,000,000 over a four year period beginning September 30, 2011. The City is responsible for paying a total of \$1,904,580 and the Tax Increment Finance Authority is responsible for paying a total of \$2,095,420. Due to financial conditions, the City and Tax Increment Finance Authority did not make the first annual payments due September 30, 2011 of \$476,145 and \$523,855, respectively. The City is currently reviewing options for payment of this liability.

**Business-type Activities** - The City has pledged substantially all revenue of the Water and Sewer Funds, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds of the bonds provided financing for the improvements and additions to the water and sewer supply systems. The bonds are paid solely from the net revenue of the water and sewer systems. The remaining principal and interest to be paid on the water and sewer bonds total \$3,497,644 and \$10,641,978, respectively. During the current year, net revenue of the water system and sewer system was \$3,491,336 and \$2,445,176, respectively, compared to annual debt requirements of \$442,205 and \$440,529, respectively.

**Component Units** - Tax Increment Finance Authority Area #2 (TIFA 2) and Tax Increment Finance Authority Area #3 (TIFA 3) have pledged captured property tax revenue to repay the above TIFA 2 and TIFA 3 county contractual agreements, lease payable, and revenue bonds. Proceeds of the bonds provided financing for the Marriott Hotel construction, GM Centerpointe improvements, golf course improvements, Phoenix Center renovations, and the Clinton Valley Center Hospital Housing project. The bonds are paid solely from TIFA 2 and TIFA 3 captured property taxes. The remaining principal and interest to be paid on the TIFA 2 and TIFA 3 bonds are \$36,370,617 and \$42,321,572, respectively. During the current year, TIFA 2 and TIFA 3 captured property tax revenue totaled \$944,310 and \$1,714,397, respectively, compared to annual debt requirements of \$2,348,324 and \$2,105,644, respectively.

### Note 8 - Restricted Assets

The balance of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Total	Component Units
Cash and investments:				
Landfill closure and postclosure costs	\$ 1,405,904	\$ -	\$ 1,405,904	\$ -
Bond reserves	-	1,712,298	1,712,298	7,941,938
Deposits held by State for landfill closure and postclosure care	1,092,351	-	1,092,351	-
Total restricted assets	<u>\$ 2,498,255</u>	<u>\$ 1,712,298</u>	<u>\$ 4,210,553</u>	<u>\$ 7,941,938</u>



### **Note 8 - Restricted Assets (Continued)**

#### **Landfill - Closure and Postclosure Care Costs**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and postclosure care costs as an expense in the government-wide statements in each period based on the acres of the entire permitted site used as of each balance sheet date. The \$2,498,255 reported as landfill closure and postclosure liability at June 30, 2011 represents the cumulative amount reported to date based on the closure and postclosure costs related to the acres of the permitted site that have been used.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. Effective October 15, 2006, the City closed the landfill. The Michigan Department of Environmental Quality is in the process of examining closure/postclosure costs. On a volume basis versus site acreage basis, approximately 100 percent of landfill capacity is used as of June 30, 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements and, at June 30, 2011, investments of \$2,498,255 are held for these purposes. These are reported as restricted assets on the balance sheet. Fund balance has been reserved by the same amount. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical and dental, workers' compensation, and general liability expense claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions.

### Note 9 - 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 medical and dental, workers' compensation, and general liability 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. Due to a decrease in the liability as determined by the calculation of the incurred but not reported reserve, a negative amount of incurred claims is reported in workers' compensation. The total decrease in the workers' compensation liability is \$1,783,124. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation		Medical and Dental Claims	
	2011	2010	2011	2010	2011	2010
Unpaid claims - Beginning of year	\$ 2,500,000	\$ 2,500,000	\$ 4,200,000	\$ 4,200,000	\$ 927,000	\$ 927,000
Incurred claims	279,182	1,104,299	(734,210)	734,677	16,431,088	12,287,729
Claim payments	(449,252)	(1,104,299)	(1,048,914)	(734,677)	(16,288,088)	(12,287,729)
Unpaid claims - End of year	\$ 2,329,930	\$ 2,500,000	\$ 2,416,876	\$ 4,200,000	\$ 1,070,000	\$ 927,000

### Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System

**Plan Description** - The General Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Pontiac General Employees' Retirement System; this plan covers substantially all employees of the City, except police and fire employees. The system provides retirement benefits, as well as death and disability benefits. Employees may receive a cost-of-living adjustment as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The plan 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 47450 Woodward, Pontiac, Michigan 48342.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by City ordinance and negotiation with the employees' collective bargaining units. Plan members are not required to contribute. The City is required to make periodic contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

**Annual Pension Cost** - The annual contribution for the year ended December 31, 2010 was \$0. The annual required contribution was determined as part of actuarial valuation at December 31, 2007, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional salary increases of 1.1 percent to 4.9 percent per year based on merit and/or longevity, (d) cost of living adjustments ranging from 2.0 percent to 2.5 percent per year, and (e) inflation of 4.5 percent. Both (a) and (b) are determined by using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years.

Per the actuarial report dated December 31, 2009, all assumptions have remained consistent.

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2008	2009	2010
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2007	2008	2009
Actuarial value of assets	\$ 433,028,186	\$ 416,678,512	\$ 405,193,572
Actuarial accrued liability (AAL) (entry age)	\$ 257,940,349	\$ 261,497,756	\$ 255,720,207
Unfunded AAL (UAAL)	\$ (175,087,837)	\$ (155,180,756)	\$ (149,473,365)
Funded ratio	167.9 %	159.3 %	158.5 %
Covered payroll	\$ 13,559,473	\$ 14,414,481	\$ 12,553,146
UAAL as a percentage of covered payroll	- %	- %	- %

**Reserves** - As of December 31, 2010, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 2,103,063
Reserve for retired benefit payments	197,313,589

### Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

**Financial Statement Information** - As of December 31, 2010, the statement of net assets for the General Employees' Retirement System is as follows:

#### Assets

Cash	\$ 100,175
Accrued interest and dividends receivable	1,491,760
Accounts receivable - Due from General Employees' Retirement System	
VEBA	134,301
Cash and investments held as collateral for securities lending:	
Repurchase agreements	21,157,168
Agency notes and bonds	15,404,109
Certificates of deposit	13,783,859
Time deposits	7,662,918
Asset-backed floating rate note	6,895,843
Commercial paper	5,267,767
Variable rate certificates of deposit	3,451,835
Variable rate notes and bonds	2,911,752
Sovereign guaranteed commercial paper	1,127,130
Sweep vehicles	430,501
Corporate bonds	180,028
Investments at fair value:	
Money market funds	16,849,379
U.S. government agency notes and debentures	12,305,471
High-yield bonds	24,048,532
Corporate and other bonds	30,911,804
Equities	296,251,863
Private equities	5,036,119
U.S. government mortgage-backed securities	18,590,726
Commercial mortgage pools	6,515,646
Asset-backed securities	7,671,147
Other	857,886
Total assets	<u>499,037,719</u>

#### Liabilities

Due to City of Pontiac	126,012
Due to City of Pontiac Police and Fire Retirement System	4,589
Accounts payable	754,974
Amounts due broker under securities lending agreement	<u>78,272,910</u>
Total liabilities	<u>79,158,485</u>

**Net Assets Held in Trust for Pension Benefits** \$ 419,879,234

### Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

As of December 31, 2010, the statement of changes in net assets for the General Employees' Retirement System is as follows:

#### Additions

Miscellaneous and litigation revenue	\$ 138,373
Securities lending income:	
Interest and fees	244,864
Less borrower rebates and bank fees	<u>(111,494)</u>
Net securities lending income	133,370
Investment income:	
Interest and dividend income	9,801,576
Net increase in fair value	47,517,725
Less investment advisor fees	<u>(2,659,737)</u>
Net investment income	<u>54,659,564</u>
Total additions	54,931,307

#### Deductions

Retirees' pension benefits and retirement incentives	(20,624,034)
Other expenses	(420,578)
Charges from the City of Pontiac - Administrative expenses	<u>(255,041)</u>
Total deductions	<u>(21,299,653)</u>

<b>Net Increase in Net Assets Held in Trust for Pension Benefits</b>	<b>33,631,654</b>
<b>Net Assets Held in Trust for Pension Benefits - January 1, 2010</b>	<b><u>386,247,580</u></b>
<b>Net Assets Held in Trust for Pension Benefits - December 31, 2010</b>	<b><u>\$ 419,879,234</u></b>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 11 - Defined Benefit Pension Plan - Police and Fire Retirement System

**Plan Description** - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Pontiac Police and Fire Retirement System; this plan covers all police and fire employees of the City. The system provides retirement benefits, as well as death and disability benefits. Employees may receive a cost of living adjustment as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The plan 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 47450 Woodward, Pontiac, Michigan 48342

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by City ordinance and negotiation with the employees' collective bargaining units. Plan members are required to contribute 2.5 percent of their annual salaries. The City is required to make periodic contributions at actuarially determined rates. The City was required to contribute \$824,166 for the City's year ended June 30, 2011 and did not make the payment. Administrative costs are financed through investment earnings.

**Annual Pension Cost** - The annual contribution for the year ended December 31, 2010 was \$887,134. The annual required contribution was determined as part of actuarial valuations at December 31, 2007 and 2008, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.0 percent per year, (c) additional salary increases of 0.5 percent to 9.6 percent per year based on merit and/or longevity, (d) cost of living adjustments of 2.0 percent per year, and (e) inflation of 4.0 percent. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level of percent of payroll on an open basis. The remaining amortization period is 20 years.

Per the actuarial report dated December 31, 2009, all assumptions have remained consistent.

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2008	2009	2010
Annual pension cost (APC)	\$ 1,829,115	\$ 1,230,190	\$ 887,134
Percentage of APC contributed	100.0 %	100.0 %	49.0 %
Net pension obligation	\$ -	\$ -	\$ -

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 11 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

	Actuarial Valuation as of December 31		
	2007	2008	2009
Actuarial value of assets	\$ 271,992,032	\$ 265,251,339	\$ 259,240,616
Actuarial accrued liability (AAL) (entry age)	\$ 235,981,324	\$ 238,217,676	\$ 243,283,874
Unfunded AAL (UAAL)	\$ (36,010,708)	\$ (27,033,663)	\$ (15,956,742)
Funded ratio	115.3 %	111.3 %	106.6 %
Covered payroll	\$ 11,066,828	\$ 9,749,807	\$ 7,405,796
UAAL as a percentage of covered payroll	- %	- %	- %

**Reserves** - As of December 31, 2010 the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 2,599,892
Reserve for retired benefit payments	194,418,962

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 11 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

**Financial Statement Information** - As of December 31, 2010, the statement of net assets for the Police and Fire Retirement System is as follows:

<b>Assets</b>	
Cash	\$ 100,586
Accrued interest and dividends receivable	240,579
Accounts receivable:	
Due from City of Pontiac Police and Fire Retirement System VEBA	187,162
Due from City of Pontiac	272,529
Due from City of Pontiac General Employees' Retirement System	4,589
Cash and investments held as collateral for securities lending:	
Repurchase agreements	8,998,162
Agency bonds and notes	6,551,381
Certificates of deposit	5,862,288
Time deposits	3,259,046
Asset-backed floating rate notes	2,932,808
Commercial paper	2,240,386
Variable rate certificates of deposits	1,468,069
Variable rate notes and bonds	1,238,371
Sovereign guaranteed commercial paper	479,369
Sweep vehicles	183,092
Corporate bonds	76,566
Investments at fair value:	
Money market and mutual funds	7,953,364
U.S. government agency notes and debentures	10,007,616
High-yield bonds	4,682,073
Corporate and other bonds	17,616,363
Equities	134,483,277
Private equities	9,304,792
Real estate	7,334,285
U.S. government mortgage-backed securities	14,324,800
Commercial mortgage pools	2,695,107
Asset-backed securities	1,169,183
Other fixed income	28,403,203
Total assets	<u>272,069,046</u>
<b>Liabilities</b>	
Accounts payable and other liabilities	220,480
Amounts due to broker under securities lending agreement	33,289,538
Total liabilities	<u>33,510,018</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<u>\$ 238,559,028</u>



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 11 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

As of December 31, 2010, the statement of changes in net assets for the Police and Fire Retirement System is as follows:

#### Additions

Miscellaneous and litigation revenue	\$ 398,431
Securities lending income:	
Interest and fees	95,505
Less borrower rebates	<u>(44,654)</u>
Net securities lending income	50,851
Contributions:	
Employee	352,233
Employer	<u>438,593</u>
Total contributions	790,826
Investment income:	
Interest and dividend income	3,223,736
Net appreciation in fair value	25,273,088
Less investment advisor fees	<u>(863,567)</u>
Net investment income	<u>27,633,257</u>
Total additions	28,873,365
<b>Deductions</b>	
Retirees' pension benefits and retirement incentives	(16,885,689)
Member refunds and withdrawals	(280,755)
Other expenses	(265,149)
Charges from the City - Administrative expenses	<u>(105,317)</u>
Total deductions	(17,536,910)
<b>Net Increase in Net Assets Held in Trust for Pension Benefits</b>	11,336,455
<b>Net Assets Held in Trust for Pension Benefits - January 1, 2010</b>	<u>227,222,573</u>
<b>Net Assets Held in Trust for Pension Benefits - December 31, 2010</b>	<u>\$ 238,559,028</u>

### **Note 12 - Defined Contribution Pension Plan**

**Defined Contribution Plan** - Beginning January 1, 2002, the City began providing pension benefits to its full-time nonunion employees and elected officials through a 401(a) defined contribution plan. Nonunion employees and elected officials were given the option to participate in the defined contribution plan or the defined benefit plan. Effective July 1, 2005, SAEA members were also given the option to participate in the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council, the City contributes 9 percent of the employees' gross earnings and employees are required to contribute 3 percent. Employer contributions for each employee plus interest allocated to the employees' account are immediately vested.

The City's total payroll during the current year was \$23,761,396. The current year contribution was calculated based on covered payroll of \$69,905, resulting in an employer contribution of \$5,253 and employee contributions of \$2,097.

**Deferred Compensation Plan** - The City offers to all its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

### **Note 13 - Other Postemployment Benefits - General Employees' Retirement System VEBA**

**Plan Description** - The General Employees' Retiree Health and Insurance Benefits Trust (the "Trust") was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the General Employees' Retirement System of the City of Pontiac. The Trust was accumulating assets to generate investment earnings and used substantially all assets as of June 30, 2011 to reimburse the City for eligible retiree insurance benefits. The Trust was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The Trust 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 Trust at 47450 Woodward, Pontiac, Michigan 48342.

### Note 13 - Other Postemployment Benefits - General Employees' Retirement System VEBA (Continued)

**Funding Policy** - The City pays the cost of insurance premiums as they are due for payment. In addition, the City is required to make minimum contributions to the Trust in the amount of 3 percent of valuation payroll unless a lesser amount is actuarially determined to be necessary to actuarially fund the Trust. The ordinance that established the Trust requires annual funding of the actuarial rate or 3 percent of valuation payroll. Amounts paid for current premiums and advance funding of the Trust for the year ended June 30, 2011 are shown below. The City did not make the minimum contribution to the Trust of \$301,685 at June 30, 2011. Payment of current premiums of \$7,382,036 at June 30, 2011 have been reduced by a \$6,841,607 reimbursement to the City from the Trust during 2011.

**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 December 31, 2008. 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 liability over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 10,000,245
Interest on the prior year's net OPEB obligation	464,566
Less adjustment to the annual required contribution	<u>(141,757)</u>
Annual OPEB cost	10,323,054
Amounts contributed:	
Payments of current premiums	(540,429)
Advance funding	<u>-</u>
Increase in net OPEB obligation	9,782,625
OPEB obligation - Beginning of year	<u>6,194,216</u>
OPEB obligation - End of year	<u><u>\$ 15,976,841</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/09	12/31/06	\$ 10,674,833	69.79 %	\$ 3,224,475
6/30/10	12/31/07	9,927,292	70.09 %	6,194,216
6/30/11	12/31/08	10,323,054	5.24 %	15,976,841

### Note 13 - Other Postemployment Benefits - General Employees' Retirement System VEBA (Continued)

The funding progress of the plan as of the most recent valuation date 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
12/31/08	\$ 4,796,224	\$ 226,279,072	\$ 221,482,848	2.12 %	\$ 14,414,481	1,536.53 %

**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 above presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. See the required supplemental information section for additional information.

Projects 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 designated 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 December 31, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return compounded annually (net of administration expense), which consists of a real rate of return of .5 percent per year plus a long-term rate of inflation of 4.5 percent per year. It also included healthcare cost increases ranging from 4.5 percent to 10.0 percent for the years included in the valuation. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was an open 30-year period.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 13 - Other Postemployment Benefits - General Employees' Retirement System VEBA (Continued)

**Financial Statement Information** - As of December 31, 2010, the statement of net assets for the General Employees' Retirement System VEBA is as follows:

	<u>General Employees' Retirement System VEBA</u>
<b>Assets</b>	
Investments at fair value	\$ 454,624
Due from City of Pontiac	<u>1,781</u>
Total assets	456,405
<b>Liabilities</b>	
Due to Police and Fire Retirement System	45
Due to General Employees' Retirement System	134,301
Accounts payable	<u>1,860</u>
Total liabilities	<u>136,206</u>
<b>Trust Net Assets</b>	<u><u>\$ 320,199</u></u>

### Note 13 - Other Postemployment Benefits - General Employees' Retirement System VEBA (Continued)

As of December 31, 2010, the statement of changes in net assets for the General Employees' Retirement System VEBA is as follows:

	General Employees' Retirement System VEBA
<b>Additions</b>	
Contributions - Employer	\$ 3,141,083
Investment income:	
Interest and dividend income	127,504
Net increase in fair value of investments	420,769
	<u>548,273</u>
Net investment income	<u>548,273</u>
Total additions	3,689,356
<b>Deductions</b>	
Professional services	(25,411)
Retirees' pension benefits and retirement incentives	<u>(9,551,730)</u>
Total deductions	<u>(9,577,141)</u>
<b>Net Decrease in Trust Net Assets</b>	(5,887,785)
<b>Trust Net Assets - January 1, 2010</b>	<u>6,207,984</u>
<b>Trust Net Assets - December 31, 2010</b>	<u>\$ 320,199</u>

### Note 14 - Other Postemployment Benefits - Police and Fire Retirement System VEBA

**Plan Description** - The Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, and who retired on or after August 22, 1996. Currently, 156 retirees are eligible for benefits under this plan. The Trust was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The Trust 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 Trust at 47450 Woodward, Pontiac, Michigan 48342.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 14 - Other Postemployment Benefits - Police and Fire Retirement System VEBA (Continued)

**Funding Policy** - The City is required by ordinance to contribute on a percent of covered payroll which the trustees have deemed to be based on actuarial recommended amounts. An actuarial valuation was performed as of December 31, 2008 which arrived at a required employer contribution rate of 35.22 percent of police and fire wages. The City funded at this rate for the fiscal year ended June 30, 2010. At July 1, 2010, the contribution rate increased to 42.06 percent; however, the scheduled contributions after July 1, 2010 of \$3,243,232 were not paid to the Trust by the City.

**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 December 31, 2008. 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 liability over a period not to exceed 30 years.

The funding progress of the plan as of December 31, 2008 (the most recent valuation date, based on the 5 percent alternate investment return assumption) is as follows:

Annual required contribution (recommended)	\$ 4,533,229
Interest on the prior year's net OPEB obligation	334,728
Less adjustment to the annual required contribution	<u>(102,139)</u>
Annual OPEB cost	4,765,818
Amounts contributed:	
Payments of current premiums	-
Advance funding	<u>-</u>
Increase in net OPEB obligation	4,765,818
OPEB obligation - Beginning of year	<u>4,463,039</u>
OPEB obligation - End of year	<u>\$ 9,228,857</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/09	12/31/06	\$ 5,594,865	47.87 %	\$ 2,916,541
6/30/10	12/31/07	4,705,180	67.13 %	4,463,040
6/30/11	12/31/08	4,765,818	- %	9,228,858

### Note 14 - Other Postemployment Benefits - Police and Fire Retirement System VEBA (Continued)

The funding progress of the plan as of the most recent valuation date 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
12/31/08	\$ 31,405,001	\$ 113,221,193	\$ 81,816,192	27.74 %	\$ 9,749,807	839.16 %

**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 above presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. See the required supplemental information section for additional information.

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 December 31, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return as well as an alternate 5 percent investment rate of return compounded annually (net of administrative expenses). The financial statements reflect the use of the alternate 5 percent investment rate of return, which consists of a real rate of return of 0.5 percent per year plus a long-term rate of inflation of 4.5 percent per year. The valuation did not include specific assumptions related to healthcare cost increases. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 14 - Other Postemployment Benefits - Police and Fire Retirement System VEBA (Continued)

**Financial Statement Information** - As of December 31, 2010, the statement of net assets for the Police and Fire Retirement System VEBA is as follows:

	<u>Police and Fire Retirement System VEBA</u>
<b>Assets</b> - Investments at fair value	\$ 34,292,801
<b>Liabilities</b>	
Due to City of Pontiac	2,868,098
Due to City of Pontiac Police and Fire Retirement System	187,162
Accounts payable	32,885
Due to brokers	419,997
Total liabilities	<u>3,508,142</u>
<b>Trust Net Assets</b>	<u>\$ 30,784,659</u>

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 14 - Other Postemployment Benefits - Police and Fire Retirement System VEBA (Continued)

As of December 31, 2010, the statement of changes in net assets for the Police and Fire Retirement System VEBA is as follows:

	<u>Police and Fire Retirement System VEBA</u>
<b>Additions</b>	
Contributions - Employer	\$ 1,671,578
Contributions - Employee	10,423
Investment income:	
Interest and dividend income	741,878
Net increase in fair value	4,189,502
Less investment advisor fees	<u>(117,669)</u>
Net investment income	<u>4,813,711</u>
Total additions	6,495,712
<b>Deductions</b>	
Retirees' pension benefits and retirement incentives	(2,385,475)
Other expenses	<u>(28,040)</u>
Total deductions	<u>(2,413,515)</u>
<b>Net Increase in Trust Net Assets</b>	4,082,197
<b>Trust Net Assets - January 1, 2010</b>	<u>26,702,462</u>
<b>Trust Net Assets - December 31, 2010</b>	<u>\$ 30,784,659</u>

### Note 15 - Other Postemployment Benefits - City of Pontiac Retiree Health Care Plan

**Plan Description** - The City also provides Medicare Part B reimbursement to eligible employees and health, optical, dental, and life insurance benefits to police and fire retirees not eligible for the Police and Fire Retiree Prefunded Group Health and Insurance Trust noted above. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 15 - Other Postemployment Benefits - City of Pontiac Retiree Health Care Plan (Continued)

**Funding Policy** - The collective bargaining agreements do not require employee contributions. 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).

**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 December 31, 2009. 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 computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,590,354
Interest on the prior year's net OPEB obligation	52,774
Less adjustment to the annual required contribution	<u>(15,795)</u>
 Annual OPEB cost	 3,627,333
Amounts contributed:	
Payments of current premiums	(3,633,716)
Advance funding	<u>-</u>
 Decrease in net OPEB obligation	 (6,383)
OPEB obligation - Beginning of year	<u>1,055,482</u>
OPEB obligation - End of year	<u>\$ 1,049,099</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/09	12/31/06	\$ 4,380,928	83.34 %	\$ 729,833
6/30/10	12/31/09	3,615,924	90.99 %	1,055,482
6/30/11	12/31/09	3,627,333	100.18 %	1,049,099

The funding progress of the plan as of the most recent valuation date 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
12/31/09	\$ -	\$ 73,645,892	\$ 73,645,892	-	\$ 19,958,942	368.99 %

### **Note 15 - Other Postemployment Benefits - City of Pontiac Retiree Health Care Plan (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 December 31, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 10.0 percent annual increase for medical care inflation in the first year, decreasing in increments of 0.5 percent over the next 12 years to the ultimate 4.0 percent assumption. The assumed investment return rate was 5.0 percent. This rate assumes no prefunding. It also included salary increases of 4 percent across-the-board and age- and service-related rates for merit and longevity. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

### **Note 16 - Contingent Liabilities**

**Litigation** - There are various claims and legal actions pending against the City and its various operating units, many of which are either partially or fully covered by insurance. The City is defending against these actions. In the opinion of City management, the ultimate amount of loss, if any, resulting from these claims and legal actions will not be material to the financial position of the City.

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

### Note 17 - Service Concession Arrangement

On April 10, 2010, the City entered into a lease agreement with Torre Golf Management, Inc. (TGM) to operate the Pontiac municipal golf course through December 31, 2014. The terms of the lease are summarized as follows:

- 1) TGM promises to provide golf services at a level previously provided by the City. Failure to open and operate the premises as a golf course will result in a \$1,000 per-day penalty for liquidated damages.
- 2) The City will transfer all golf-related assets for its use in operating the golf course.
- 3) TGM will maintain/preserve the condition of the assets and agrees to set aside 3 percent of revenue to be spent on capital improvements. The City must approve the list of proposed annual capital improvements. At the end of the term, the premises must be in good condition. During the term, the City retains the right to further develop and improve the golf course.
- 4) The City will continue to exercise oversight of the operation.
- 5) The City will continue to set the greens fees.
- 6) In addition to TGM setting aside 3 percent of revenue to be spent on capital improvements, TGM is required to compensate the City annually from 2011-2014 based on the percentage of gross sales as follows:

2011	3%
2012	3%
2013	3%
2014	4%

- 7) TGM is required to maintain a \$75,000 performance bond over the lease term for the purpose of funding the operations of the golf course.
- 8) TGM is required to fund a \$75,000 security deposit, in addition to the performance bond, during each golf season to be held by the City. The City has the authority to utilize the security deposit for any expenses, cost, obligations, or duties related to the golf course. The security deposit is to be paid to the City as follows each year:
  - \$10,000 paid to the City no later than April 30
  - \$10,000 paid to the City no later than May 30
  - \$10,000 paid to the City no later than June 30
  - \$10,000 paid to the City no later than July 30
  - \$10,000 paid to the City no later than August 30
  - \$10,000 paid to the City no later than September 30
  - \$15,000 paid to the City no later than October 30

The leased golf course operation is reported by the City as an enterprise fund with capital assets of \$2,286,610 and a security deposit liability of \$30,000.

### Note 18 - Management's Plan

A preliminary review of the City's financial condition was performed by the State of Michigan on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and ultimately appointed an emergency financial manager (EFM) to run the City on March 19, 2009. This EFM served until June 30, 2010. A second EFM was appointed and served from July 4, 2010 to September 8, 2011. An emergency manager was appointed on September 12, 2011 and is currently serving the City under the provisions of Public Act 4 of 2011.

The first EFM prepared and adopted the 2010/2011 budget. The budget included a substantial loss of revenue from the 2009/2010 fiscal year. The EFM hoped to balance the budget through cost-cutting measures and significant expenditure reductions from employee wage and fringe benefit concessions achieved throughout the year. The adopted budget did not address the cumulative General Fund deficit or future unfunded obligations.

The second EFM was unable to obtain a balanced operating budget despite significant cost and personnel reductions during the year. As a result of the operating deficit and insufficient cash flow, the EFM did not make the budgeted pension and VEBA payments for the 2011 fiscal year. Not making the pension and VEBA payments resulted in a balanced operating budget for the 2011 fiscal year and the elimination of the cumulative General Fund deficit at June 30, 2011.

The second EFM adopted the 2011/2012 General Fund budget which again reflected a substantial loss of revenue from that experienced in the prior year. This budget would have resulted in an operating deficit of \$9,170,818 for the year ending June 30, 2012. In accordance with the requirements of Public Act 4 of 2011, the newly appointed EFM submitted a financial and operating plan to eliminate the operating deficit for the 2012 fiscal year. The key initiatives that will be undertaken to eliminate the operating deficit are as follows:

- Management will reduce the cost of the City's health insurance. By consolidating the number of plans, sharing the costs of insurance with employees and retirees through offering a plan that is more realistic in today's economy, the City should realize at least \$2.8 million of savings on an annual basis. These savings will be realized through the modification, rejection, termination, or renegotiation of contracts pursuant to Section 19 of Public Act 4 of 2011.
- Management will seek reimbursement from the federal government for up to 80 percent of the cost of health insurance costs of retirees who have not attained 65 years of age and who retired after June 30, 2010. This reimbursement is expected to be \$1.8 million in fiscal 2012.

### **Note 18 - Management's Plan (Continued)**

- Management plans to outsource fire suppression activities to another governmental unit. This initiative is expected to reduce the cost of such services by approximately \$3 million per year.
- Management will initiate a sanitation user fee to eliminate the General Fund subsidy for these services. This initiative is expected to generate \$1.3 million in revenue and eliminate the General Fund subsidy of the same amount.

During the next two years, the City plans to continue to meet its existing debt service requirements on all bonds, notes, and municipal securities and all other uncontested legal obligations. In addition, the City will continue to develop partnerships with neighboring communities to provide services in an efficient manner. Services that can be provided by the private sector at a lower cost than can be provided by the City will continue to be explored.

### **Note 19 - Subsequent Events**

Subsequent to year end, the City issued new debt and defeased debt. Sewage Disposal System Revenue Bonds totaling \$10,785,000 were issued and \$3,260,000 of outstanding 2002 TIFA bonds were defeased.

Also subsequent to year end, the City contracted two significant City operations. The police department was contracted to Oakland County and the water and sewer operation was contracted to United Water.

### **Note 20 - 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 2013 fiscal year.

In December 2010, the GASB issue 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 2013 fiscal year.

### **Note 20 - Upcoming Accounting Pronouncements (Continued)**

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 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.

The GASB has recently issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The pronouncement clarifies when a replacement of a swap counterparty or swap counterparty's credit support provider results in continuing effective hedging relationships versus a required termination. The City is evaluating the impact this standard may have on its financial statements when adopted as required in fiscal year 2013.

### **Note 21 - 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, the following funds were reclassified: two special revenue funds were reclassified to the General Fund, and the Employee Sick and Vacation Fund, previously classified as a special revenue fund, was reclassified as an internal service fund. None of the three funds reclassified contained a fund balance, and thus only assets and liabilities were reclassified.

During the year, the City re-evaluated the Library Fund's current classification and status. Previously, the Library was reported as a special revenue fund, however based on the new criteria as stated in GASB Statement No. 54, the Library no longer meets the criteria of a special revenue fund. Also, per definitions described in GASB Statements No. 14 and No. 39, the Library does not meet the definition of a component unit of the City. Furthermore, the Library is a separate legal entity, not fiscally dependent on the City and for the reasons stated above, the Library Fund should not be included in the City's annual financial report. The impact on removal of the Library as a special revenue fund is reflected in the tables below.



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2011

### Note 21 - Accounting and Reporting Change (Continued)

Beginning fund balance/net assets were restated as follows:

	Nonmajor Special Revenue Funds	Nonmajor Governmental Funds	Governmental Activities
Fund Balance/Net Assets - June 30, 2010 - As previously reported	\$ 10,357,005	\$ 19,933,048	\$ 53,850,461
Adjustment for removal of the Library Fund	<u>(1,542,988)</u>	<u>(1,542,988)</u>	<u>(1,542,988)</u>
Fund Balance/Net Assets - June 30, 2010 - As restated	<u>\$ 8,814,017</u>	<u>\$ 18,390,060</u>	<u>\$ 52,307,473</u>

## **Required Supplemental Information**

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# City of Pontiac, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Revenue</b>				
Property taxes	\$ 12,716,264	\$ 11,638,419	\$ 11,752,180	\$ 113,761
Income taxes	8,100,000	8,700,000	8,991,164	291,164
State sources	9,500,000	10,001,002	10,474,714	473,712
Charges for services	3,499,946	3,499,946	3,441,834	(58,112)
Investment income	-	-	(10,767)	(10,767)
Other	520,982	528,982	1,862,700	1,333,718
Cable revenue	480,000	480,000	639,049	159,049
Charges to other funds for administrative services and reimbursements	4,180,757	3,786,836	3,527,541	(259,295)
Interdepartmental revenue	1,530,774	1,481,429	1,144,537	(336,892)
Transfer from other funds	-	200,000	541,498	341,498
Total revenue	<u>40,528,723</u>	<u>40,316,614</u>	<u>42,364,450</u>	<u>2,047,836</u>
<b>Expenditures</b>				
Current:				
General government:				
City council	129,943	74,230	51,602	22,628
City clerk	466,038	425,641	346,859	78,782
Attorney	1,050,970	1,260,730	1,346,572	(85,842)
Finance	2,730,494	3,039,188	3,338,962	(299,774)
Executive office	577,972	368,245	346,473	21,772
Personnel	404,916	335,318	296,156	39,162
Total general government	<u>5,360,333</u>	<u>5,503,352</u>	<u>5,726,624</u>	<u>(223,272)</u>
Public safety:				
Police	12,504,982	10,015,643	8,752,380	1,263,263
Fire	10,351,740	10,607,940	8,351,519	2,256,421
Total public safety	<u>22,856,722</u>	<u>20,623,583</u>	<u>17,103,899</u>	<u>3,519,684</u>
Public works	4,260,123	3,394,027	3,294,954	99,073
Community development	1,677,429	1,569,526	1,268,487	301,039
General and special programs	6,374,116	-	-	-
Retiree fringe benefits	-	3,317,164	4,744,905	(1,427,741)
Transfer to other funds	-	3,351,800	3,422,937	(71,137)
Increase to fund deficit	-	758,981	-	758,981
Debt service	-	2,158,713	2,158,713	-
Total expenditures	<u>40,528,723</u>	<u>40,677,146</u>	<u>37,720,519</u>	<u>2,956,627</u>
<b>Net Change in Fund Balance</b>	-	(360,532)	4,643,931	5,004,463
<b>Fund Balance (Deficit) - Beginning of year</b>	<u>(4,089,199)</u>	<u>(4,089,199)</u>	<u>(4,089,199)</u>	<u>-</u>
<b>Fund Balance (Deficit) - End of year</b>	<u>\$ (4,089,199)</u>	<u>\$ (4,449,731)</u>	<u>\$ 554,732</u>	<u>\$ 5,004,463</u>

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule Year Ended June 30, 2011

### General Employees' Retirement System

The schedule of funding progress 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
12/31/04	\$ 394,807,254	\$ 258,365,787	\$ (136,441,467)	152.8	\$ 21,320,477	-
12/31/05	391,409,757	260,103,260	(131,306,497)	150.5	16,751,815	-
12/31/06	409,983,491	266,457,429	(143,526,062)	153.9	14,996,753	-
12/31/07	433,028,186	257,940,349	(175,087,837)	167.9	13,559,473	-
12/31/08	416,678,512	261,497,756	(155,180,756)	159.3	14,414,481	-
12/31/09	405,193,572	255,720,207	(149,473,365)	158.5	12,553,146	-

Note: 12/31/09 plan amended

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/06	12/31/03	\$ 16,926	100.0
6/30/07	12/31/04	15,695	100.0
6/30/08	12/31/05	-	100.0
6/30/09	12/31/06	-	100.0
6/30/10	12/31/07	-	100.0
6/30/11	12/31/08	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2009, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.6% to 9.4%
Includes inflation at	4.5%

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule (Continued) Year Ended June 30, 2011

### Police and Fire Retirement System

The schedule of funding progress 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
12/31/04	\$ 249,927,425	\$225,466,883	\$ (24,460,542)	110.8	\$ 15,830,247	-
12/31/05	253,702,503	229,779,819	(23,922,684)	110.4	13,758,914	-
12/31/06	258,738,855	231,715,863	(27,022,992)	111.7	12,831,719	-
12/31/07	271,992,032	235,981,324	(36,010,708)	115.3	11,066,828	-
12/31/08	265,251,339	238,217,676	(27,033,663)	111.3	9,749,807	-
12/31/09	259,240,616	243,283,874	(15,956,742)	106.6	7,405,796	-

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/05	12/31/03	\$ 2,242,320	100.0
12/31/06	12/31/04	2,324,011	100.0
12/31/07	12/31/05	2,344,231	100.0
12/31/08	12/31/06	1,829,115	100.0
12/31/09	12/31/07	1,230,190	100.0
12/31/10	12/31/08	887,134	49.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2009, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, open
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%-13.6%
Includes inflation at	4.0%

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule (Continued) Year Ended June 30, 2011

### General Employees' Retirement System VEBA

The schedule of funding progress 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
12/31/04	\$ 3,202,351	\$ 139,925,086	\$ 136,722,735	2.3	\$ 21,210,461	644.60
12/31/05	3,973,887	157,048,845	153,074,958	2.5	16,751,815	913.78
12/31/06	4,928,700	154,823,626	149,894,926	3.2	14,996,753	999.52
12/31/07	5,682,510	159,345,212	153,662,702	3.6	13,559,473	1,135.25
12/31/08	4,796,224	226,279,072	221,482,848	2.1	14,414,481	1,536.53

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Amount Contributed
6/30/08	12/31/05	\$ -	\$ 451,945
6/30/09	12/31/06	10,674,833	7,450,360
6/30/10	12/31/07	9,759,248	6,957,547
6/30/11	12/31/08	10,000,245	540,429

\* GASB Statement No. 45 was adopted by the City for the City's fiscal year ended June 30, 2009. As such, the amount contributed corresponds to the City's fiscal year end (pursuant to GASB Statement No. 45) as apposed to the Trust's calendar year end.

Note: Fiscal years ended 6/30/09 and 6/30/10 represent contributions to the Trust for pre-funding and coverage provided to current retirees. Fiscal year ended 6/30/11 represents coverage provided to current retirees less \$6,888,225 reimbursed by the Trust.

Additional information as of December 30, 2008, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	20 years, open
Actuarial assumptions:	
Investment rate of return	7.50% (net of expenses)
Medical inflation rate	10.0%, graded down to 4.5% in 0.5% increments over 11 years
Salary increases:	
Across-the-board	4.5%
Merit and longevity	Age-related rates

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule (Continued) Year Ended June 30, 2011

### Police and Fire Retirement System VEBA

The schedule of funding progress 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
12/31/06	\$ 25,534,993	\$ 79,788,465	\$ 54,253,472	32.0	\$ 12,831,719	422.81
12/31/07	30,185,216	73,171,572	42,986,356	41.3	11,066,828	388.43
12/31/08	31,405,001	113,221,193	81,816,192	27.7	9,749,807	839.16

\* 12/31/08 actuarial valuation information was derived from the actuary's 5 percent alternate return assumption.

Note: Actuary valuation reports obtained for the plan for the fiscal years ended December 31, 2005 and 2004 do not disclose the actuarial accrued liability. The above actuarial valuation dates reflect the most recent available.

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Amount Contributed
6/30/08	12/31/05	\$ -	\$ 2,908,138
6/30/09	12/31/06	5,584,865	2,678,324
6/30/10	12/31/07	4,553,185	3,158,681
6/30/11	12/31/08	4,533,229	-

Note: GASB Statement No. 45 was adopted by the City for the City's fiscal year ended June 30, 2009. As such, amount contributed corresponds to the City's fiscal year end (pursuant to GASB Statement No. 45) as opposed to the plan's calendar year end.

Additional information as of December 31, 2008, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Actuarial assumptions:	
Investment rate of return	7.50% (net of expenses)
Medical inflation rate	10.0%, graded down to 4.0% in 0.5% increments over 12 years
Salary increases:	
Across-the-board	4.0%
Merit and longevity	Service-related rates

# City of Pontiac, Michigan

## 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:

- 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 as revenue, rather than as a reduction of expenses.

The budgetary comparison schedule is presented on the same basis of accounting used in preparing the adopted budget. The following is a reconciliation of the budgetary comparison schedule to the operating statement (statement of revenue, expenditures, and changes in fund balance):

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 35,632,707	\$ 29,482,321
Interdepartmental revenue	1,144,537	1,144,537
Transfers in	541,498	-
Transfers out	-	3,422,937
Issuance of debt	1,374,984	-
Reimbursements from other funds recorded as revenue	<u>3,670,724</u>	<u>3,670,724</u>
Amounts per budget comparison schedule	<u>\$ 42,364,450</u>	<u>\$ 37,720,519</u>

Department heads normally submit a budget request for their department by March 1 each year. The budget requests are reviewed by the budget department, finance department, and executive office. The emergency manager adopts the final budget by June 30 each year.

The budget document presents information by fund, function, department, and control accounts. The legal level of budgetary control adopted by the emergency financial manager is the department level. All budget amendments are approved by the emergency financial manager.

All annual appropriations lapse at fiscal year end except those approved for carryforward through encumbrances. Encumbrances (e.g., purchase orders, contracts) do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.



# City of Pontiac, Michigan

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - General government:			
Attorney	\$ 1,260,730	\$ 1,346,572	\$ (85,842)
Finance	3,039,188	3,338,962	(299,774)
General Fund - Retiree fringe benefits	3,317,164	4,744,905	(1,427,741)
General Fund - Transfer to other funds	3,351,800	3,422,937	(71,137)

Attorney costs were over budget due to an increase in usage of outside legal services during the last quarter of the fiscal year.

Finance costs were over budget due to estimated unemployment costs, which were calculated at year end, that were substantially more than the budgeted amount (\$320,775 over budget). This increase is also attributed to additional layoffs during the final quarter of the year. Unemployment costs were recorded in general and special programs during fiscal year 2010.

Retiree fringe benefits were over budget primarily due to retiree medical costs. The City is self-insured for medical and during the budget process, the City anticipated a substantial reduction in overall costs. The City was over budget on overall medical costs by approximately 18 percent with retiree healthcare costs over budget by \$1,718,726.

Transfers to other funds was over budget due to unbudgeted transfers to several grant funds that had administrative costs in excess of allowable limits.

Most General Fund expenditure departments, especially police and fire, had significant favorable variances. The favorable variances are primarily a result of the non-payment of budgeted pension and VEBA payments as well as a substantial one-time adjustment to the IBNR workers' compensation liability. The favorable variances were not a result of operational savings.

## **Other Supplemental Information**

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# City of Pontiac, Michigan

## Other Supplemental Information Summary Combining Balance Sheet Nonmajor Governmental Fund Types June 30, 2011

	Special Revenue Funds	Capital Project Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 7,102,935	\$ 3,281,690	\$ -	\$ 10,384,625
Receivables:				
Property taxes receivable	7,747	3,293	-	11,040
Other receivables	7,459	-	-	7,459
Due from other governmental units	1,668,914	841,987	-	2,510,901
Due from other funds	225,636	-	-	225,636
Other assets	19,382	-	-	19,382
Restricted cash and cash equivalents	2,498,255	-	-	2,498,255
Due from other funds - Advances	895,000	1,357,438	-	2,252,438
<b>Total assets</b>	<b>\$ 12,425,328</b>	<b>\$ 5,484,408</b>	<b>\$ -</b>	<b>\$ 17,909,736</b>
<b>Liabilities</b>				
Accounts payable	\$ 899,675	\$ 408,439	\$ -	\$ 1,308,114
Due to other governmental units	243	-	-	243
Due to other funds	1,832,938	339,306	-	2,172,244
Deposits	1,670	-	-	1,670
Accrued liabilities and other	286,027	86,582	-	372,609
Deferred revenue	357,012	845,280	-	1,202,292
<b>Total liabilities</b>	<b>3,377,565</b>	<b>1,679,607</b>	<b>-</b>	<b>5,057,172</b>
<b>Fund Balance (Deficit)</b>				
Nonspendable	19,382	-	-	19,382
Restricted:				
Roads	846,364	-	-	846,364
Police	537,959	-	-	537,959
Landfill postclosure costs	2,498,255	-	-	2,498,255
Drains	2,822,734	-	-	2,822,734
Senior activities	1,274,923	-	-	1,274,923
Cable television	1,034,345	-	-	1,034,345
Capital projects	-	4,326,619	-	4,326,619
Committed - Cemetery	45,957	-	-	45,957
Unassigned	(32,156)	(521,818)	-	(553,974)
<b>Total fund balances</b>	<b>9,047,763</b>	<b>3,804,801</b>	<b>-</b>	<b>12,852,564</b>
<b>Total liabilities and fund balances</b>	<b>\$ 12,425,328</b>	<b>\$ 5,484,408</b>	<b>\$ -</b>	<b>\$ 17,909,736</b>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Balances Nonmajor Governmental Fund Types Year Ended June 30, 2011

	Special Revenue Funds	Capital Project Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>Revenue</b>				
Taxes	\$ 2,740,527	\$ 1,164,139	\$ -	\$ 3,904,666
Federal grants	4,010,959	1,075,002	-	5,085,961
State grants	5,219,427	-	-	5,219,427
Charges for services	995,870	250	-	996,120
Fines and forfeitures	1,442,277	-	-	1,442,277
Investment loss	(5,987)	(4,937)	-	(10,924)
Contribution from component units	29,013	-	1,085,372	1,114,385
Other revenue	277,812	148,301	-	426,113
Total revenue	14,709,898	2,382,755	1,085,372	18,178,025
<b>Expenditures</b>				
Current:				
General government	8,964	227,798	-	236,762
District court	3,888,032	-	-	3,888,032
Public safety	179,405	89,046	-	268,451
Public works and utilities	9,201,544	2,367,043	-	11,568,587
Commercial and industrial development	38,033	16,528	-	54,561
Community development	3,135,196	-	-	3,135,196
Community and human services	501,935	-	-	501,935
Contribution to component units	-	5,278,450	-	5,278,450
Debt service	205,673	155,907	1,229,272	1,590,852
Total expenditures	17,158,782	8,134,772	1,229,272	26,522,826
<b>Excess of Revenue Under Expenditures</b>	(2,448,884)	(5,752,017)	(143,900)	(8,344,801)
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	371,739	157,857	-	529,596
Transfers in	2,721,358	704,764	143,900	3,570,022
Transfers out	(410,467)	(881,846)	-	(1,292,313)
Total other financing sources (uses)	2,682,630	(19,225)	143,900	2,807,305
<b>Net Change in Fund Balance</b>	233,746	(5,771,242)	-	(5,537,496)
<b>Net Assets</b> - Beginning of year - As restated (Note 21)	8,814,017	9,576,043	-	18,390,060
<b>Net Assets</b> - End of year	<u>\$ 9,047,763</u>	<u>\$ 3,804,801</u>	<u>\$ -</u>	<u>\$ 12,852,564</u>

# City of Pontiac, Michigan

	Major Roads	Local Roads	PA-48 Tele- communication Allocation	Sanitation Fund	District Court	Chapter 20 Drain
<b>Assets</b>						
Cash and investments	\$ 8,590	\$ 42,745	\$ 567,129	\$ 693,946	\$ 652,325	\$ 2,825,440
Receivables:						
Property taxes receivable	-	-	-	6,586	-	-
Other receivables	703	-	-	6,756	-	-
Due from other governmental units	629,103	157,964	-	-	-	-
Due from other funds	225,636	-	-	-	-	-
Due from other funds - Advances	-	-	-	-	-	-
Other assets	19,382	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	2,498,255	-	-
<b>Total assets</b>	<b>\$ 883,414</b>	<b>\$ 200,709</b>	<b>\$ 567,129</b>	<b>\$ 3,205,543</b>	<b>\$ 652,325</b>	<b>\$ 2,825,440</b>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 43,092	\$ 19,642	\$ -	\$ 509,206	\$ 177	\$ -
Due to other governmental units	-	-	-	-	-	-
Due to other funds	622,624	-	-	-	580,000	-
Deposits	-	-	-	-	1,670	-
Accrued liabilities and other	-	-	-	182,055	70,478	2,706
Deferred revenue	100,148	-	-	16,027	-	-
<b>Total liabilities</b>	<b>765,864</b>	<b>19,642</b>	<b>-</b>	<b>707,288</b>	<b>652,325</b>	<b>2,706</b>
<b>Fund Balances (Deficit)</b>						
Nonspendable	19,382	-	-	-	-	-
Restricted:						
Roads	98,168	181,067	567,129	-	-	-
Police	-	-	-	-	-	-
Landfill postclosure costs	-	-	-	2,498,255	-	-
Drains	-	-	-	-	-	2,822,734
Senior activities	-	-	-	-	-	-
Cable television	-	-	-	-	-	-
Committed - Cemetery	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
<b>Total fund balances (deficit)</b>	<b>117,550</b>	<b>181,067</b>	<b>567,129</b>	<b>2,498,255</b>	<b>-</b>	<b>2,822,734</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 883,414</b>	<b>\$ 200,709</b>	<b>\$ 567,129</b>	<b>\$ 3,205,543</b>	<b>\$ 652,325</b>	<b>\$ 2,825,440</b>

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

Phoenix Center Plaza Events	Community Development Block Grant	Community Development Block Grant - ARRA	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	MDEQ Grant Pontiac Creek Stormwater Plan	Police Training Grant Act 302	Cable Fund
\$ 8,164	\$ 1,615	\$ -	\$ 1,303,240	\$ 1,068	\$ 502,891	\$ -	\$ 42,101	\$ 139,436
-	-	-	1,161	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	247,270	54,321	-	68,075	-	32,156	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	895,000
-	-	-	-	-	-	-	-	-
<b>\$ 8,164</b>	<b>\$ 248,885</b>	<b>\$ 54,321</b>	<b>\$ 1,304,401</b>	<b>\$ 69,143</b>	<b>\$ 502,891</b>	<b>\$ 32,156</b>	<b>\$ 42,101</b>	<b>\$ 1,034,436</b>
\$ 8,164	\$ 17,193	\$ -	\$ 4,617	\$ 40,000	\$ 7,033	\$ -	\$ -	\$ 91
-	-	-	-	-	-	-	-	-
-	228,837	54,321	-	29,000	-	32,156	-	-
-	-	-	-	-	-	-	-	-
-	2,855	-	23,700	143	-	-	-	-
-	-	-	1,161	-	-	32,156	-	-
8,164	248,885	54,321	29,478	69,143	7,033	64,312	-	91
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	495,858	-	42,101	-
-	-	-	-	-	-	-	-	-
-	-	-	1,274,923	-	-	-	-	-
-	-	-	-	-	-	-	-	1,034,345
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(32,156)	-	-
-	-	-	1,274,923	-	495,858	(32,156)	42,101	1,034,345
<b>\$ 8,164</b>	<b>\$ 248,885</b>	<b>\$ 54,321</b>	<b>\$ 1,304,401</b>	<b>\$ 69,143</b>	<b>\$ 502,891</b>	<b>\$ 32,156</b>	<b>\$ 42,101</b>	<b>\$ 1,034,436</b>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Special Revenue Funds June 30, 2011

	Neighborhood Stabilization	Homeless Shelter	Blight Demolition Grant	Energy Efficiency and Conservation	COPS Hiring Recovery	Cemetery Fund	Total
<b>Assets</b>							
Cash and investments	\$ 15,844	\$ 2,813	\$ 207,520	\$ -	\$ -	\$ 88,068	\$ 7,102,935
Receivables:							
Property taxes receivable	-	-	-	-	-	-	7,747
Other receivables	-	-	-	-	-	-	7,459
Due from other governmental units	387,095	92,930	-	-	-	-	1,668,914
Due from other funds	-	-	-	-	-	-	225,636
Due from other funds - Advances	-	-	-	-	-	-	895,000
Other assets	-	-	-	-	-	-	19,382
Restricted cash and cash equivalents	-	-	-	-	-	-	2,498,255
	<u>\$ 402,939</u>	<u>\$ 95,743</u>	<u>\$ 207,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,068</u>	<u>\$ 12,425,328</u>
<b>Liabilities and Fund Balances (Deficit)</b>							
<b>Liabilities</b>							
Accounts payable	\$ 160,928	\$ 49,743	\$ -	\$ -	\$ -	\$ 39,789	\$ 899,675
Due to other governmental units	-	-	-	-	-	243	243
Due to other funds	240,000	46,000	-	-	-	-	1,832,938
Deposits	-	-	-	-	-	-	1,670
Accrued liabilities and other	2,011	-	-	-	-	2,079	286,027
Deferred revenue	-	-	207,520	-	-	-	357,012
	<u>402,939</u>	<u>95,743</u>	<u>207,520</u>	<u>-</u>	<u>-</u>	<u>42,111</u>	<u>3,377,565</u>
<b>Fund Balances (Deficit)</b>							
Nonspendable	-	-	-	-	-	-	19,382
Restricted:							
Roads	-	-	-	-	-	-	846,364
Police	-	-	-	-	-	-	537,959
Landfill postclosure costs	-	-	-	-	-	-	2,498,255
Drains	-	-	-	-	-	-	2,822,734
Senior activities	-	-	-	-	-	-	1,274,923
Cable television	-	-	-	-	-	-	1,034,345
Committed - Cemetery	-	-	-	-	-	45,957	45,957
Unassigned	-	-	-	-	-	-	(32,156)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,957</u>	<u>9,047,763</u>
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,957</u>	<u>9,047,763</u>
Total liabilities and fund balances (deficit)	<u>\$ 402,939</u>	<u>\$ 95,743</u>	<u>\$ 207,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,068</u>	<u>\$ 12,425,328</u>

# City of Pontiac, Michigan

	Major Roads	Local Roads	PA-48 Tele- communication Allocation	Sanitation Fund	District Court	Chapter 20 Drain
<b>Revenue</b>						
Taxes	\$ -	\$ -	\$ -	\$ 2,318,671	\$ -	\$ (4,253)
Federal grants	154,109	-	-	-	-	-
State grants	3,644,189	979,034	198,767	-	-	-
Charges for services	-	-	-	804,453	-	-
Fines and forfeitures	-	-	-	-	1,442,277	-
Investment income (loss)	1,199	533	(368)	(3,874)	759	(1,759)
Contribution from component units	-	-	-	-	-	-
Other revenue	24,194	-	-	-	8,318	-
<b>Total revenue</b>	<b>3,823,691</b>	<b>979,567</b>	<b>198,399</b>	<b>3,119,250</b>	<b>1,451,354</b>	<b>(6,012)</b>
<b>Expenditures</b>						
Current:						
General government	-	-	-	-	-	-
District court	-	-	-	-	3,888,032	-
Public safety	-	-	-	-	-	-
Public works and utilities	3,227,285	1,023,740	159,064	3,869,000	-	18,856
Commercial and industrial development	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Community and human services	-	-	-	-	-	-
Debt service	205,673	-	-	-	-	-
<b>Total expenditures</b>	<b>3,432,958</b>	<b>1,023,740</b>	<b>159,064</b>	<b>3,869,000</b>	<b>3,888,032</b>	<b>18,856</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>390,733</b>	<b>(44,173)</b>	<b>39,335</b>	<b>(749,750)</b>	<b>(2,436,678)</b>	<b>(24,868)</b>
<b>Other Financing Sources (Uses)</b>						
Issuance of debt	-	-	-	315,725	-	-
Transfers in	-	80,038	-	19,604	2,478,566	-
Transfers out	(273,889)	(76,690)	-	-	(41,888)	-
<b>Total other financing (uses) sources</b>	<b>(273,889)</b>	<b>3,348</b>	<b>-</b>	<b>335,329</b>	<b>2,436,678</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>116,844</b>	<b>(40,825)</b>	<b>39,335</b>	<b>(414,421)</b>	<b>-</b>	<b>(24,868)</b>
<b>Fund Balances (Deficit) - Beginning of year - As restated</b>	<b>706</b>	<b>221,892</b>	<b>527,794</b>	<b>2,912,676</b>	<b>-</b>	<b>2,847,602</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 117,550</b>	<b>\$ 181,067</b>	<b>\$ 567,129</b>	<b>\$ 2,498,255</b>	<b>\$ -</b>	<b>\$ 2,822,734</b>



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

Phoenix Center Plaza Events	Community Development Block Grant	Community Development Block Grant - ARRA	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	MDEQ Grant Pontiac Creek Stormwater Plan	Police Training Grant Act 302	Cable Fund
\$ -	\$ -	\$ -	\$ 426,109	\$ -	\$ -	\$ -	\$ -	\$ -
-	1,520,118	303,449	-	171,298	9,518	-	-	-
-	-	-	-	-	188,103	23,654	-	-
-	-	-	10,553	-	-	-	-	-
-	-	-	(1,482)	-	(439)	-	(79)	7
29,013	-	-	-	-	-	-	-	-
9,000	-	-	470	-	-	-	-	148,592
<u>38,013</u>	<u>1,520,118</u>	<u>303,449</u>	<u>435,650</u>	<u>171,298</u>	<u>197,182</u>	<u>23,654</u>	<u>(79)</u>	<u>148,599</u>
-	-	-	-	-	-	-	-	8,964
-	-	-	-	-	-	-	-	-
-	-	-	-	-	83,104	-	25,427	-
-	-	-	-	-	-	25,975	-	-
38,033	-	-	-	-	-	-	-	-
-	1,040,024	303,449	-	165,922	-	-	-	-
-	-	-	287,080	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>38,033</u>	<u>1,040,024</u>	<u>303,449</u>	<u>287,080</u>	<u>165,922</u>	<u>83,104</u>	<u>25,975</u>	<u>25,427</u>	<u>8,964</u>
(20)	480,094	-	148,570	5,376	114,078	(2,321)	(25,506)	139,635
-	-	-	56,014	-	-	-	-	-
-	84,542	-	1,990	57	-	4,230	-	-
-	-	-	-	-	-	(18,000)	-	-
-	84,542	-	58,004	57	-	(13,770)	-	-
(20)	564,636	-	206,574	5,433	114,078	(16,091)	(25,506)	139,635
20	(564,636)	-	1,068,349	(5,433)	381,780	(16,065)	67,607	894,710
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,274,923</u>	<u>\$ -</u>	<u>\$ 495,858</u>	<u>\$ (32,156)</u>	<u>\$ 42,101</u>	<u>\$ 1,034,345</u>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Nonmajor Special Revenue Funds Year Ended June 30, 2011

	Neighborhood Stabilization	Homeless Shelter	Blight Demolition Grant	Energy Efficiency and Conservation	COPS Hiring Recovery	Cemetery Fund	Total
<b>Revenue</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,740,527
Federal grants	1,403,557	247,514	-	130,522	70,874	-	4,010,959
State grants	-	-	185,680	-	-	-	5,219,427
Charges for services	-	-	-	-	-	180,864	995,870
Fines and forfeitures	-	-	-	-	-	-	1,442,277
Investment income (loss)	-	-	-	-	-	(484)	(5,987)
Contribution from component units	-	-	-	-	-	-	29,013
Other revenue	-	-	-	-	-	87,238	277,812
<b>Total revenue</b>	<b>1,403,557</b>	<b>247,514</b>	<b>185,680</b>	<b>130,522</b>	<b>70,874</b>	<b>267,618</b>	<b>14,709,898</b>
<b>Expenditures</b>							
Current:							
General government	-	-	-	-	-	-	8,964
District court	-	-	-	-	-	-	3,888,032
Public safety	-	-	-	-	70,874	-	179,405
Public works and utilities	-	-	-	130,522	-	747,102	9,201,544
Commercial and industrial development	-	-	-	-	-	-	38,033
Community development	1,440,121	-	185,680	-	-	-	3,135,196
Community and human services	-	214,855	-	-	-	-	501,935
Debt service	-	-	-	-	-	-	205,673
<b>Total expenditures</b>	<b>1,440,121</b>	<b>214,855</b>	<b>185,680</b>	<b>130,522</b>	<b>70,874</b>	<b>747,102</b>	<b>17,158,782</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(36,564)</b>	<b>32,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(479,484)</b>	<b>(2,448,884)</b>
<b>Other Financing Sources (Uses)</b>							
Issuance of debt	-	-	-	-	-	-	371,739
Transfers in	45,338	-	-	-	-	6,993	2,721,358
Transfers out	-	-	-	-	-	-	(410,467)
<b>Total other financing (uses) sources</b>	<b>45,338</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,993</b>	<b>2,682,630</b>
<b>Net Change in Fund Balances</b>	<b>8,774</b>	<b>32,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(472,491)</b>	<b>233,746</b>
<b>Fund Balances (Deficit) - Beginning of year - As restated</b>	<b>(8,774)</b>	<b>(32,659)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518,448</b>	<b>8,814,017</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 45,957</b>	<b>\$ 9,047,763</b>

# City of Pontiac, Michigan

	Capital Improvement	CVC Infrastructure Improvements	Pontiac Woods Development	Phoenix Plaza Renovations	Oakland Plaza Construction
<b>Assets</b>					
Cash and investments	\$ 2,195,270	\$ 621,888	\$ 111,506	\$ 197,004	\$ -
Receivables:					
Property taxes receivable	3,293	-	-	-	-
Due from other governmental units	-	-	-	-	-
Due from other funds - Advances	1,357,438	-	-	-	-
<b>Total assets</b>	<b>\$ 3,556,001</b>	<b>\$ 621,888</b>	<b>\$ 111,506</b>	<b>\$ 197,004</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 28,923	\$ -	\$ -	\$ 197,004	\$ -
Due to other funds	-	-	-	-	-
Accrued liabilities and other	86,582	-	-	-	-
Deferred revenue	3,293	-	-	-	-
<b>Total liabilities</b>	<b>118,798</b>	<b>-</b>	<b>-</b>	<b>197,004</b>	<b>-</b>
<b>Fund Balances (Deficit)</b>					
Restricted - Capital projects	3,437,203	621,888	111,506	-	-
Unassigned	-	-	-	-	-
<b>Total fund balances (deficit)</b>	<b>3,437,203</b>	<b>621,888</b>	<b>111,506</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 3,556,001</b>	<b>\$ 621,888</b>	<b>\$ 111,506</b>	<b>\$ 197,004</b>	<b>\$ -</b>

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

Strand Theater Project	ML King Construction	Clinton River Linear Park Trail	Total
\$ 156,022	\$ -	\$ -	\$ 3,281,690
-	-	-	3,293
-	612,908	229,079	841,987
-	-	-	1,357,438
<b>\$ 156,022</b>	<b>\$ 612,908</b>	<b>\$ 229,079</b>	<b>\$5,484,408</b>
\$ -	\$ 101,005	\$ 81,507	\$ 408,439
-	225,636	113,670	339,306
-	-	-	86,582
-	612,908	229,079	845,280
-	939,549	424,256	1,679,607
156,022	-	-	4,326,619
-	(326,641)	(195,177)	(521,818)
156,022	(326,641)	(195,177)	3,804,801
<b>\$ 156,022</b>	<b>\$ 612,908</b>	<b>\$ 229,079</b>	<b>\$5,484,408</b>

# City of Pontiac, Michigan

	Capital Improvement	CVC Infrastructure Improvements	Pontiac Woods Development	Phoenix Plaza Renovations	Oakland Plaza Construction
<b>Revenue</b>					
Taxes	\$ 1,164,139	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	-	-	-
Charges for services	-	-	-	-	-
Investment loss	(3,858)	(314)	(103)	(497)	-
Other revenue	-	-	-	148,301	-
<b>Total revenue</b>	<b>1,160,281</b>	<b>(314)</b>	<b>(103)</b>	<b>147,804</b>	<b>-</b>
<b>Expenditures</b>					
Current:					
General government	227,798	-	-	-	-
Public safety	89,046	-	-	-	-
Public works	45,329	-	-	-	-
Commercial and industrial development	-	-	-	-	-
Contribution to component units	-	-	-	205,008	5,073,442
Debt service	155,907	-	-	-	-
<b>Total expenditures</b>	<b>518,080</b>	<b>-</b>	<b>-</b>	<b>205,008</b>	<b>5,073,442</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>642,201</b>	<b>(314)</b>	<b>(103)</b>	<b>(57,204)</b>	<b>(5,073,442)</b>
<b>Other Financing Sources (Uses)</b>					
Issuance of debt	157,857	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	(881,846)	-	-	-	-
<b>Total other financing (uses) sources</b>	<b>(723,989)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(81,788)</b>	<b>(314)</b>	<b>(103)</b>	<b>(57,204)</b>	<b>(5,073,442)</b>
<b>Fund Balances (Deficit) - Beginning of year</b>	<b>3,518,991</b>	<b>622,202</b>	<b>111,609</b>	<b>57,204</b>	<b>5,073,442</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 3,437,203</b>	<b>\$ 621,888</b>	<b>\$ 111,506</b>	<b>\$ -</b>	<b>\$ -</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Governmental Fund Component Units**  
**Year Ended June 30, 2011**

Strand		Clinton River	
Theater	ML King	Linear Park	
Project	Construction	Trail	Total
\$ -	\$ -	\$ -	\$ 1,164,139
-	1,075,002	-	1,075,002
-	250	-	250
(165)	-	-	(4,937)
-	-	-	148,301
(165)	1,075,252	-	2,382,755
-	-	-	227,798
-	-	-	89,046
-	2,092,634	229,080	2,367,043
16,528	-	-	16,528
-	-	-	5,278,450
-	-	-	155,907
16,528	2,092,634	229,080	8,134,772
(16,693)	(1,017,382)	(229,080)	(5,752,017)
-	-	-	157,857
-	704,764	-	704,764
-	-	-	(881,846)
-	704,764	-	(19,225)
(16,693)	(312,618)	(229,080)	(5,771,242)
172,715	(14,023)	33,903	9,576,043
<b>\$ 156,022</b>	<b>\$ (326,641)</b>	<b>\$ (195,177)</b>	<b>\$3,804,801</b>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Funds Year Ended June 30, 2011

	Debt Service Funds			
	1995 MI	Refinanced	GBA Bonds	Total
	Transportation Bonds	Golf Course Bonds		
<b>Revenue</b> - Contribution from component units	\$ -	\$ 756,217	\$ 329,155	\$ 1,085,372
<b>Expenditures</b> - Current - Debt service	143,900	756,217	329,155	1,229,272
<b>Excess of Expenditures Over Revenue</b>	(143,900)	-	-	(143,900)
<b>Other Financing Sources</b> - Transfers in	143,900	-	-	143,900
<b>Fund Balances</b> - Beginning of year	-	-	-	-
<b>Fund Balances</b> - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2011

	Equipment Revolving Fund	Self-insurance Workers' Compensation Fund	Dental Insurance Fund	Self-insurance Optical and Hearing Fund	Insurance Fund	Employee Sick and Vacation Fund	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 1,420,810	\$ 245,376	\$ 34,318	\$ 8,793	\$ 583	\$ 15,558	\$ 1,725,438
Accounts receivable	177,956	16,717	59,253	2,638	417,922	-	674,486
Due from component units - Advances	-	755,000	-	-	3,125,000	-	3,880,000
Prepays and other assets	136,190	-	-	-	664,920	-	801,110
Total current assets	1,734,956	1,017,093	93,571	11,431	4,208,425	15,558	7,081,034
Noncurrent assets:							
Due from other funds - Advances	-	1,576,876	-	-	-	-	1,576,876
Depreciable capital assets - Net	3,122,763	-	-	-	-	-	3,122,763
Total noncurrent assets	3,122,763	1,576,876	-	-	-	-	4,699,639
Total assets	4,857,719	2,593,969	93,571	11,431	4,208,425	15,558	11,780,673
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	159,147	177,093	93,571	11,431	788,256	-	1,229,498
Accrued liabilities and other	184,298	2,416,876	-	-	3,401,641	15,558	6,018,373
Current portion of long-term debt	626,191	-	-	-	-	-	626,191
Total current liabilities	969,636	2,593,969	93,571	11,431	4,189,897	15,558	7,874,062
Noncurrent liabilities - Long-term debt - Net of current portion							
	2,325,608	-	-	-	-	-	2,325,608
Total liabilities	3,295,244	2,593,969	93,571	11,431	4,189,897	15,558	10,199,670
<b>Net Assets</b>							
Invested in capital assets - Net of related debt	170,964	-	-	-	-	-	170,964
Unrestricted	1,391,511	-	-	-	18,528	-	1,410,039
Total net assets	<u>\$ 1,562,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,528</u>	<u>\$ -</u>	<u>\$ 1,581,003</u>



# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets Internal Service Funds Year Ended June 30, 2011

	Equipment Revolving Fund	Self-insurance Workers' Compensation Fund	Dental Insurance Fund	Self-insurance Optical and Hearing Fund	Insurance Fund	Employee Sick and Vacation Fund	Total
<b>Operating Revenue - Charges for services</b>	\$ 1,684,221	\$ 16,718	\$ 779,997	\$ 91,698	\$ 23,538,561	\$ 879,559	\$ 26,990,754
<b>Operating Expenses</b>							
Insurance	-	-	1,043,119	97,184	23,228,573	-	24,368,876
Operations and maintenance	1,096,489	-	-	-	-	879,383	1,975,872
Administration	483,815	-	-	-	306,336	-	790,151
Workers' compensation expense - Net of change in liability	-	(695,480)	-	-	-	-	(695,480)
Depreciation	698,590	-	-	-	-	-	698,590
<b>Total operating expenses</b>	<b>2,278,894</b>	<b>(695,480)</b>	<b>1,043,119</b>	<b>97,184</b>	<b>23,534,909</b>	<b>879,383</b>	<b>27,138,009</b>
<b>Operating (Loss) Income</b>	<b>(594,673)</b>	<b>712,198</b>	<b>(263,122)</b>	<b>(5,486)</b>	<b>3,652</b>	<b>176</b>	<b>(147,255)</b>
<b>Nonoperating Revenue (Expenses)</b>							
Investment income (loss)	146,941	96	(58)	18	1,456	(176)	148,277
Interest expense	(146,151)	-	-	-	-	-	(146,151)
<b>(Loss) Income - Before transfers</b>	<b>(593,883)</b>	<b>712,294</b>	<b>(263,180)</b>	<b>(5,468)</b>	<b>5,108</b>	<b>-</b>	<b>(145,129)</b>
<b>Transfers In</b>	<b>543,093</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>502</b>	<b>-</b>	<b>543,595</b>
<b>Transfers Out</b>	<b>-</b>	<b>(716,071)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(716,071)</b>
<b>Change in Net Assets</b>	<b>(50,790)</b>	<b>(3,777)</b>	<b>(263,180)</b>	<b>(5,468)</b>	<b>5,610</b>	<b>-</b>	<b>(317,605)</b>
<b>Net Assets - Beginning of year</b>	<b>1,613,265</b>	<b>3,777</b>	<b>263,180</b>	<b>5,468</b>	<b>12,918</b>	<b>-</b>	<b>1,898,608</b>
<b>Net Assets - End of year</b>	<b>\$ 1,562,475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,528</b>	<b>\$ -</b>	<b>\$ 1,581,003</b>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2011

	Equipment Revolving Fund	Self-insurance Workers' Compensation Fund	Dental Insurance Fund	Self-insurance Optical and Hearing Fund	Insurance Fund	Employee Sick and Vacation Fund	Total
<b>Cash Flows from Operating Activities</b>							
Receipts from customers	\$ 1,519,045	\$ 64,555	\$ 1,096,795	\$ 116,734	\$ 26,778,071	\$ 879,559	\$ 30,454,759
Payments to suppliers	(971,657)	(1,034,099)	(1,088,541)	(109,545)	(24,226,783)	-	(27,430,625)
Payments to employees	(491,680)	(887)	-	-	(261,482)	(941,692)	(1,695,741)
Other receipts	-	-	-	-	783,434	-	783,434
Net cash provided by (used in) operating activities	55,708	(970,431)	8,254	7,189	3,073,240	(62,133)	2,111,827
<b>Cash Flows from Noncapital Financing Activities</b>							
Transfers from other funds	543,093	-	-	-	502	-	543,595
Transfers to other funds	-	(716,071)	-	-	-	-	(716,071)
Loans made to other funds	-	1,868,124	-	-	(3,125,000)	-	(1,256,876)
Net cash provided by (used in) noncapital financing activities	543,093	1,152,053	-	-	(3,124,498)	-	(1,429,352)
<b>Cash Flows from Capital and Related Financing Activities</b>							
Purchase of capital assets	(114,808)	-	-	-	-	-	(114,808)
Principal and interest paid on capital debt	(769,034)	-	-	-	-	-	(769,034)
Net cash used in capital and related financing activities	(883,842)	-	-	-	-	-	(883,842)
<b>Cash Flows from Investing Activities -</b>							
Interest received (paid) on investments	146,941	96	(58)	18	1,456	(176)	148,277
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(138,100)	181,718	8,196	7,207	(49,802)	(62,309)	(53,090)
<b>Cash and Cash Equivalents - July 1, 2010</b>	1,558,910	63,658	26,122	1,586	50,385	77,867	1,778,528
<b>Cash and Cash Equivalents - June 30, 2011</b>	<u>\$ 1,420,810</u>	<u>\$ 245,376</u>	<u>\$ 34,318</u>	<u>\$ 8,793</u>	<u>\$ 583</u>	<u>\$ 15,558</u>	<u>\$ 1,725,438</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>							
Operating (loss) income	\$ (594,673)	\$ 712,198	\$ (263,122)	\$ (5,486)	\$ 3,652	\$ 176	\$ (147,255)
Adjustments to reconcile operating (loss) income to net cash from operating activities:							
Depreciation and amortization	698,590	-	-	-	-	-	698,590
Changes in assets and liabilities:							
Receivables	(165,176)	47,837	316,798	25,036	4,022,944	-	4,247,439
Prepaid and other assets	73,600	-	-	-	(528,920)	-	(455,320)
Accounts payable	52,056	52,658	(45,422)	(12,361)	(391,441)	-	(344,510)
Accrued and other liabilities	(8,689)	(1,783,124)	-	-	(32,995)	(62,309)	(1,887,117)
Net cash provided by (used in) operating activities	<u>\$ 55,708</u>	<u>\$ (970,431)</u>	<u>\$ 8,254</u>	<u>\$ 7,189</u>	<u>\$ 3,073,240</u>	<u>\$ (62,133)</u>	<u>\$ 2,111,827</u>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Fiduciary Net Assets Pension Trust Funds December 31, 2010

	General City		General City		Total Pension Trust Funds
	Employees' Retirement System	Police and Fire Retirement System	Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	
<b>Assets</b>					
Cash and cash equivalents	\$ 100,175	\$ 100,586	\$ -	\$ 92,625	\$ 293,386
Cash and investments held as collateral for securities lending:					
Repurchase agreements	21,157,168	8,998,162	-	-	30,155,330
Agency notes and bonds	15,404,109	6,551,381	-	-	21,955,490
Certificates of deposit	13,783,859	5,862,288	-	-	19,646,147
Time deposits	7,662,918	3,259,046	-	-	10,921,964
Asset-backed floating rate note	6,895,843	2,932,808	-	-	9,828,651
Commercial paper	5,267,767	2,240,386	-	-	7,508,153
Variable rate certificates of deposit	3,451,835	1,468,069	-	-	4,919,904
Variable rate notes and bonds	2,911,752	1,238,371	-	-	4,150,123
Sovereign guaranteed commercial paper	1,127,130	479,369	-	-	1,606,499
Sweep vehicle	430,501	183,092	-	-	613,593
Corporate bonds	180,028	76,566	-	-	256,594
Investments at fair value - Including loaned securities:					
Money markets and mutual funds	16,849,379	7,953,364	454,624	9,849,666	35,107,033
U.S. government agency notes and debentures	12,305,471	10,007,616	-	-	22,313,087
Corporate and other bonds	30,911,804	17,616,363	-	-	48,528,167
Equities	296,251,863	134,483,277	-	18,042,556	448,777,696
Private equities	5,036,119	9,304,792	-	1,331,902	15,672,813
U.S. government mortgage-backed securities	18,590,726	14,324,800	-	-	32,915,526
Commercial mortgage pools	6,515,646	2,695,107	-	-	9,210,753
Asset-backed securities	7,671,147	1,169,183	-	-	8,840,330
High-yield bonds	24,048,532	4,682,073	-	-	28,730,605
Equity mutual fund	-	-	-	4,976,052	4,976,052
Other fixed income	-	28,403,203	-	-	28,403,203
Other	857,886	-	-	-	857,886
Real estate	-	7,334,285	-	-	7,334,285
Accrued interest and dividends receivable	1,491,760	240,579	-	-	1,732,339
Accounts receivable:					
Due from City of Pontiac Police and Fire Retiree VEBA	-	187,162	-	-	187,162
Due from City of Pontiac	-	272,529	1,781	-	274,310
Due from General Employees' Retirement System VEBA	134,301	-	-	-	134,301
Due from City of Pontiac General Employees' Retirement System	-	4,589	-	-	4,589
Total assets	499,037,719	272,069,046	456,405	34,292,801	805,855,971
<b>Liabilities</b>					
Due to City of Pontiac	126,012	-	-	2,868,098	2,994,110
Due to General Employees' Retirement System	-	-	134,301	-	134,301
Due to City of Pontiac Police and Fire Retirement System	4,589	-	45	187,162	191,796
Accounts payable	754,974	220,480	1,860	32,885	1,010,199
Amounts due to broker under securities lending agreement	78,272,910	33,289,538	-	419,997	111,982,445
Total liabilities	79,158,485	33,510,018	136,206	3,508,142	116,312,851
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 419,879,234</b>	<b>\$ 238,559,028</b>	<b>\$ 320,199</b>	<b>\$ 30,784,659</b>	<b>\$ 689,543,120</b>

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds Year Ended December 31, 2010

	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
<b>Additions</b>					
Investment income:					
Interest and dividend income	\$ 9,801,576	\$ 3,223,736	\$ 127,504	\$ 741,878	\$ 13,894,694
Net increase in fair value	47,517,725	25,273,088	420,769	4,189,502	77,401,084
Less investment advisor fees	(2,659,737)	(863,567)	-	(117,669)	(3,640,973)
Net investment income	54,659,564	27,633,257	548,273	4,813,711	87,654,805
Securities lending income:					
Interest and fees	244,864	95,505	-	-	340,369
Less borrower rebates and bank fees	(111,494)	(44,654)	-	-	(156,148)
Net securities lending income	133,370	50,851	-	-	184,221
Contributions:					
Employer	-	438,593	3,141,083	1,671,578	5,251,254
Employee	-	352,233	-	10,423	362,656
Net contributions	-	790,826	3,141,083	1,682,001	5,613,910
Miscellaneous and litigation revenue	138,373	398,431	-	-	536,804
Total additions	54,931,307	28,873,365	3,689,356	6,495,712	93,989,740
<b>Deductions</b>					
Retirees' pension benefits and retirement incentives	20,624,034	16,885,689	-	-	37,509,723
Retiree health benefit payments	-	-	9,551,730	2,385,475	11,937,205
Member refunds and withdrawals	-	280,755	-	-	280,755
Other expenses	420,578	265,149	25,411	28,040	739,178
Charges from the City - Administrative expenses	255,041	105,317	-	-	360,358
Total deductions	21,299,653	17,536,910	9,577,141	2,413,515	50,827,219
<b>Net Increase (Decrease) in Net Assets</b>	33,631,654	11,336,455	(5,887,785)	4,082,197	43,162,521
<b>Net Assets Held in Trust for Pension Benefits -</b> Beginning of year	386,247,580	227,222,573	6,207,984	26,702,462	646,380,599
<b>Net Assets Held in Trust for Pension Benefits - End of</b> year	<u>\$ 419,879,234</u>	<u>\$ 238,559,028</u>	<u>\$ 320,199</u>	<u>\$ 30,784,659</u>	<u>\$ 689,543,120</u>

# City of Pontiac, Michigan

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	District Court - Agency Fund	Current Tax Collection Fund - Winter	Payroll Fund	Fire Insurance Trust Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 57,214	\$ 1,506,391	\$ 246,385	\$ 528,729
Receivables - Other	-	-	-	-
Total assets	<u>\$ 57,214</u>	<u>\$ 1,506,391</u>	<u>\$ 246,385</u>	<u>\$ 528,729</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	-	1,506,391	-	-
Deposits	57,214	-	-	-
Accrued liabilities and other	-	-	246,385	528,729
Total liabilities	<u>\$ 57,214</u>	<u>\$ 1,506,391</u>	<u>\$ 246,385</u>	<u>\$ 528,729</u>

**Other Supplemental Information**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2011**

Pontiac Growth Group Administration	Retirement System Administration	Housing Commission Administration	Total Agency Funds
\$ 22,018	\$ 1,779	\$ 96,259	\$ 2,458,775
-	220,580	550,521	771,101
<b>\$ 22,018</b>	<b>\$ 222,359</b>	<b>\$ 646,780</b>	<b>\$ 3,229,876</b>
\$ 20,200	\$ -	\$ -	\$ 20,200
-	218,736	634,809	2,359,936
-	-	-	57,214
1,818	3,623	11,971	792,526
<b>\$ 22,018</b>	<b>\$ 222,359</b>	<b>\$ 646,780</b>	<b>\$ 3,229,876</b>

# City of Pontiac, Michigan

	Tax Increment Finance Authority			Downtown Development Authority
	TIFA District 2	TIFA District 3	TIFA District 4	
<b>Assets</b>				
Cash and investments	\$ 207,702	\$ 1,392,824	\$ 530,646	\$ 522
Receivables				
Property taxes - Net	10,177	8,603	3,004	11,282
Due from component units - Advances	477,000	-	-	(477,000)
Restricted assets	1,973,017	5,968,921	-	-
	<u>\$ 2,667,896</u>	<u>\$ 7,370,348</u>	<u>\$ 533,650</u>	<u>\$ (465,196)</u>
Total assets				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to primary government - Advances	-	3,880,000	-	-
Accrued liabilities and other	90,346	70,800	20,936	4,719
Deferred revenue	10,177	8,603	3,004	11,282
	<u>100,523</u>	<u>3,959,403</u>	<u>23,940</u>	<u>16,001</u>
Total liabilities				
<b>Fund Balance (Deficit)</b>				
Restricted	2,567,373	5,968,921	509,710	-
Unassigned (deficit)	-	(2,557,976)	-	(481,197)
	<u>2,567,373</u>	<u>3,410,945</u>	<u>509,710</u>	<u>(481,197)</u>
Total fund balance (deficit)				
	<u>\$ 2,667,896</u>	<u>\$ 7,370,348</u>	<u>\$ 533,650</u>	<u>\$ (465,196)</u>
Total liabilities and fund balance (deficit)				

**Other Supplemental Information  
Combining Balance Sheet  
Governmental Fund Component Units  
June 30, 2011**

Economic Development Corporation	Brownfield Redevelopment Authority
\$ 1,829,155	\$ 667,800
-	-
-	-
<u>1,829,155</u>	<u>667,800</u>
\$ -	\$ 160,040
-	-
-	308,964
<u>552,486</u>	<u>-</u>
552,486	469,004
1,276,669	198,796
-	-
<u>1,276,669</u>	<u>198,796</u>
<u>\$ 1,829,155</u>	<u>\$ 667,800</u>



# City of Pontiac, Michigan

	Tax Increment Finance Authority			Downtown Development Authority
	TIFA District 2	TIFA District 3	TIFA District 4	
<b>Revenue</b>				
Taxes	\$ 944,310	\$ 1,714,398	\$ 515,287	\$ 306,838
Investment (loss) income	(4,033)	114,415	(2,372)	(280)
Contribution from primary government	205,008	5,073,443	-	-
Other revenue	38,001	-	-	3,150
Total revenue	1,183,286	6,902,256	512,915	309,708
<b>Expenditures - Current</b>				
Commercial and industrial development	84,172	219,987	-	38,204
Debt service	2,679,573	2,108,894	756,217	-
Total expenditures	2,763,745	2,328,881	756,217	38,204
<b>Net Change in Fund Balances</b>	(1,580,459)	4,573,375	(243,302)	271,504
<b>Other Financing Sources - Issuance of debt</b>	1,450,000	645,420	-	-
<b>Transfers</b>	2,642,100	(2,642,100)	-	-
<b>Net Change in Fund Balances</b>	2,511,641	2,576,695	(243,302)	271,504
<b>Fund Balances (Deficit) - Beginning of year</b>	55,732	834,250	974,276	(752,701)
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 2,567,373</b>	<b>\$ 3,410,945</b>	<b>\$ 730,974</b>	<b>\$ (481,197)</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Governmental Fund Component Units**  
**Year Ended June 30, 2011**

Economic Development Corporation	Brownfield Redevelopment Authority
\$ -	\$ (171,149)
5,600	(766)
-	-
-	-
<u>5,600</u>	<u>(171,915)</u>
3,083	160,918
-	-
<u>3,083</u>	<u>160,918</u>
2,517	(332,833)
-	-
-	-
<u>2,517</u>	<u>(332,833)</u>
1,274,152	531,629
<u>1,274,152</u>	<u>531,629</u>
<b><u>\$ 1,276,669</u></b>	<b><u>\$ 198,796</u></b>

**CITY OF PONTIAC**  
**Pontiac, Michigan**

**SINGLE AUDIT ACT**  
**COMPLIANCE**

**For the Year Ended June 30, 2011**

# CITY OF PONTIAC

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**INDEPENDENT AUDITORS' REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 29, 2011

To the Emergency Manager  
City of Pontiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. Our audit includes a reference to other auditors. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such 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.



**CITY OF PONTIAC**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Direct programs:			
Community Development Block Grants/Entitlement Grants Cluster:			
2009 Program Year	14.218	B-09-MC-26-0009	\$ 451,678
2010 Program Year	14.218	B-10-MC-26-0009	131,899
2011 Program Year	14.218	B-11-MC-26-0009	371,905
Neighborhood Stabilization Program I	14.218	B-08-MN-26-0009	1,394,783
ARRA - CDBG-R	14.253	B-09-MY-26-0009	303,449
Total Community Development Block Grants Cluster			<u>2,653,714</u>
HOME Investment Partnerships Program	14.239	M-03-MC-26-0211	165,866
ARRA - Homelessness Prevention and Rapid Re-housing Program	14.257	S09-MY-26-0009	<u>214,855</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>3,034,435</u></b>
<b>U.S. Department of Energy</b>			
Direct program -			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-SC0002550	<u>130,522</u>
<b>U.S. Department of Transportation</b>			
Passed through the Michigan Department of Transportation -			
Highway Planning and Construction Cluster	20.205	107374	69,500
Highway Planning and Construction Cluster	20.205	103472	71,500
Highway Planning and Construction Cluster	20.205	107379	75,000
Highway Planning and Construction Cluster	20.205	49864C	<u>1,673,887</u>
<b>Total U.S. Department of Transportation</b>			<b><u>1,889,887</u></b>
<b>U.S. Environmental Protection Agency</b>			
Passed through the Michigan Department of Environmental Quality:			
ARRA - State Clean Water Revolving Fund	66.458	2W-00E752-01	1,707,175
ARRA - State Drinking Water Revolving Fund	66.468	2F-00E751-01	805,840
State Drinking Water Revolving Fund	66.468	2F-00E751-01	881,872
Nonpoint Source Implementation Grants	66.460	2003-0036	<u>39,819</u>
<b>Total U.S. Environmental Protection Agency</b>			<b><u>3,434,706</u></b>
<b>U.S. Department of Justice</b>			
Direct program -			
ARRA - COPS Hiring Recovery Grant	16.710	2009RKWX0452	<u>70,874</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 8,560,424</u></b>

See accompanying notes to the SEFA.

**CITY OF PONTIAC**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Pontiac (the "City") under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**3. SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<b>Program Title</b>	<b><u>CFDA Number</u></b>	<b><u>Amount Provided to Subrecipients</u></b>
Community Development Block Grant		
Grant Program Entitlement Cluster	14.218 & 14.253	\$ 70,997

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

December 29, 2011

To the Emergency Manager of  
the City of Pontiac  
Pontiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors. Other auditors audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City of Pontiac's financial statements. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.



Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1, 2011-2, 2011-3, 2011-5, and 2011-9 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-4, 2011-6, 2011-7, and 2011-8 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-5.

In addition, we noted certain matters that we reported to management of the City in a separate letter dated December 29, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Emergency Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

December 29, 2011

To the Emergency Manager of  
the City of Pontiac  
Pontiac, Michigan

**Compliance**

We have audited the compliance of the *City of Pontiac* (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 2011-10 and 2011-12 in the accompanying schedule of findings and questioned costs, the City did not comply with the Cash Management requirement applicable to its Clean Water Revolving Loan Funds, Drinking Water Revolving Loan Funds and Highway Planning and Construction programs or the Reporting requirement applicable to its Highway Planning and Construction program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Pontiac complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-11.

### **Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-10 and 2011-12 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-11 to be a significant deficiency.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Emergency Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>  X  </u> yes <u>      </u> no
Significant deficiency(ies) identified?	<u>  X  </u> yes <u>      </u> none reported
Noncompliance material to financial statements noted?	<u>  X  </u> yes <u>      </u> no

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	<u>  X  </u> yes <u>      </u> no
Significant deficiency(ies) identified?	<u>  X  </u> yes <u>      </u> none reported
Type of auditors' report issued on compliance for major programs:	
Community Development Block Program Entitlement Cluster	<u>Unqualified</u>
Highway Planning and Construction Cluster	<u>Qualified</u>
Capitalization Grants for Clean Water State Revolving Funds	<u>Qualified</u>
Capitalization Grants for Drinking Water State Revolving Funds	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	<u>  X  </u> yes <u>      </u> no

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS (CONCLUDED)**

**Identification of major programs:**

<b><u>CFDA Number</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
14.218 and 14.253	Community Development Block Grant Program Entitlement Cluster
20.205	Highway Planning and Construction Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?             yes        X   no

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2011-1                      Material Audit Adjustments (repeat finding)**

Finding type:            Material weakness in internal controls over financial reporting.

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

Condition:             During our audit, we identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate, to the City’s financial statements. As a result, the pre-audit financial statements of the City were materially misstated.

Cause:                  Internal controls related to the year end accounting closing process did not detect all adjustments necessary to properly record year-end balances.

Effect:                 As a result, the following areas were initially misstated:

- Charges for services and customer receivables in the Sewer Enterprise Fund were overstated by approximately \$94,000.
- Compensated absences and expenses were overstated in the Sewer Enterprise Fund by approximately \$99,000.
- Compensated absences and expenses were overstated in the Water Enterprise Fund by approximately \$107,000.
- Accrued liabilities were understated and property tax revenue was overstated in various funds by a total approximating \$1,236,000. These adjustments were needed to estimate the amount of real property taxes to be charged back by the County and MTT cases in which the City will refund property taxes.
- Accounts payable was overstated and other income was understated in the Phoenix Plaza Renovation Capital Project Fund by approximately \$148,000.
- The VEBA obligation in the governmental activities was overstated by approximately \$3,545,000.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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In addition, the following areas, related to the Water and Sewer Department, were initially misstated:

- The allowance for uncollectible accounts and operations and maintenance expense were understated in the Sewer Enterprise Fund by approximately \$307,000.
- The allowance for uncollectible accounts and operations and maintenance expense were understated in the Water Enterprise Fund by approximately \$68,000.
- Accounts payable and expenses were understated in the Sewer Enterprise Fund by approximately \$1,405,000.

Recommendation: We recommend that finance/administrative procedures be modified to ensure that all year-end adjustments are identified as part of the year end closing process and posted for financial reporting purposes.

View of Responsible Official: The overstatement of charges for services and customer receivables is the result of a clerical error on a spreadsheet used to calculate an estimate of unbilled Sewer Fund receivable at year end. The City has had a process in place since 2005 to estimate this receivable each year and believes this is an isolated error. The error on the spreadsheet has been corrected and the same spreadsheet will be used in subsequent years.

The overstatement of compensated absences and expenses in the Sewer and Water Funds is the result of a clerical error on a spreadsheet used to calculate an estimate liability at year end. The City has had a process in place since 2005 to estimate this liability each year and believes this is an isolated error. The error on the spreadsheet has been corrected and same spreadsheet will be used in subsequent years.

The understatement of accrued liabilities and overstatement of property tax revenue is the result of a new estimate calculated during the audit for property tax chargebacks and Michigan Tax Tribunal refunds. The City's prior Emergency Manager determined which cases were significant enough to record based on status of each case. All other potential chargebacks and MTT cases are subjective and volatile as to the outcome and estimates are difficult to determine. Fiscal Year 2011 is the first year the auditors requested the City to record an additional estimated liability and reduction to property taxes relating to all possible chargebacks and MTT cases. The City complied and will record an estimate in subsequent year.



**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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The overstatement of accounts payable and other income relates to an unsettled dispute the City has been in with a contractor since 2005 on the amount of retainage owed to the contractor. The City had cash and a liability established for the maximum amount due at the time the audit started. The City settled with the contractor and made a final payment to the contractor in November 2011 for less than the amount accrued. The final payment amount was not known at the time this Fund was closed for audit. The subsequent event of settling the agreement at a different amount after the audit started could not have been determined at the time the Fund was closed for audit.

The overstatement of the VEBA liability and expense is the result of an unusual and complex transaction. The overstatement impacted the Government-wide statements only and had no impact on the General Fund or any other Fund of the City. The prior Emergency Manager determined the annual required VEBA payments would not be made in Fiscal Year 2011 and originally mandated that this obligation be recorded in the General Fund with the funding of the liability to be accomplished through a judgment levy on the tax roll in Fiscal Year 2012. Subsequent events after year end impacting the City's ability to pay this obligation within a reasonable amount of time and the review of the City's finances by a new Emergency Manager resulted in this obligation being reclassified as a long-term obligation for Government-wide reporting only per GASB pronouncements. In reporting this obligation in the Government-wide statements, the liability was included in two separate accruals in error. The overstatement of the liability has been corrected.

The understatement of Sewer and Water uncollectible accounts and operations and maintenance expense are the result of certain GM receivables related to the bankruptcy not being removed from the Water and Sewer subsidiary receivable billing system. The Water and Sewer Department maintains the receivable billing system which is separate from the City's general ledger system and will be following up on aged accounts going forward.

The understatement of accounts payable and expenses in the Sewer Fund relate to significant invoices submitted to Finance for payment after the specified cut-off period communicated by the Finance Department. The Sewer Department will report invoices to the Finance Department per City policy in subsequent years.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-2                      Segregation of Incompatible Duties (repeat finding)**

Finding type:            Material Weakness in internal controls over financial reporting.

Criteria:                      Management is responsible for establishing effective internal controls to safeguard the City’s assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government’s unique circumstances.

Condition:                      The City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Lack of segregation of duties was noted specifically in the following departments:

- Payroll. Once timesheets are submitted, there is no review over the payroll process. One individual is responsible for processing payroll and directing IT to print the checks.
- Treasurer’s Office. Individuals working in the Treasurer’s Office have the ability to accept cash from customers, reconcile their cash drawers and prepare deposits. The Treasurer also is able to post entries to the general ledger and is responsible for the accounts receivable subsidiary ledgers.
- Cemetery. There is one individual at the cemetery that has the ability to prepare an invoice, accept the payment, prepare the deposit and take the money to the bank.

Cause:                              This condition is a result of the City’s limited resources.

Effect:                              As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Official: While it is true that the City lacks a sufficient number of accounting personnel to ensure a complete segregation of duties, there are plans to enhance internal control in the two areas specifically noted. With respect to Payroll, the City plans to implement an ADP system for the first payroll in calendar year 2012 which will require independent approval of payroll. With respect to the Treasurer's Office, the City plans to implement a BSA system to improve record keeping. With respect to Cemetery operations, the City plans to outsource the management of the cemeteries to an outside service provider who will institute proper internal controls over operations.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-3                      Capital Asset Records (repeat finding)**

Finding type:            Material weakness in internal controls over financial reporting.

Criteria:                Management is responsible for maintaining capital asset records in order to properly account for and record activity related to the acquisition, disposition and depreciation of capital assets (i.e. land, construction in progress, streets and bridges, land improvements, building and improvements, equipment, vehicles and furniture).

Condition:              The City does not have detailed records to support the approximately \$93,822,000 recorded on the City’s books for governmental capital assets.

Cause:                    The summary schedule that the Finance Department uses to account for the City’s capital assets was inherited years ago from individuals previously responsible for the finance and accounting functions of the City.

Effect:                    By not maintaining detailed records for capital assets, it complicates the accounting for deletions and depreciation of assets. The City has no record to show the individual assets recorded, the cost of each asset and the corresponding depreciation taken on the individual assets. As a result, estimates are used to account for the deletion and depreciation of assets since reliable known data is not readily available.

Recommendation:      We recommend that the City take inventory of its capital assets so that the book value of each individual asset can be more readily be estimated.

View of Responsible Official:      The Controller’s office has schedules that support the balances in the City’s general ledger; however, the schedules are manually prepared from years of manual historical schedules prepared by City staff and former auditors that may not be 100 percent complete. Accounting standards recommend a physical inventory annually or at least every few years. The City has not had a physical inventory in over ten years. The City does not have the internal resources to perform a physical inventory. The estimated cost to have an outside party perform a physical inventory is between \$30 and \$60 thousand dollars. The City is currently evaluating all significant assets held to determine what will be disposed of or sold. After this process is complete, the City will perform a physical inventory.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-4                      Construction Deposits Payable (repeat finding)**

Finding type:            Significant deficiency in internal controls over financial reporting.

Criteria:                Management is responsible for maintaining subsidiary records for all of the accounts on the City’s general ledger.

Condition:              The Engineering Department does not maintain a master listing of all outstanding construction deposits collected and due back to developers and/or residents.

Cause:                  The Engineering Department maintains records for each developer and/or resident that has paid a deposit and has the ability to locate the amount owed to each individual by looking up the individual’s account. The Engineering Department, however, has never kept a master listing of the amounts owed to ensure that the amounts owed per each account totals the liability that is recorded on the City’s books.

Effect:                  There is a liability on the City’s books for approximately \$427,000. However, this general ledger amount is not periodically reconciled to the records maintained by the Engineering Department. This lack of reconciliation leads to a higher risk that errors will not be prevented or detected.

Recommendation:    We recommend that the Engineering Department comprise a detail of the construction deposits collected and to whom these deposits are due back.

View of Responsible Official:    The City has now hired a City Engineer and they will be directed to provide a construction deposits payable reconciliation as recommended.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-5                      Failure to Timely Disburse Tax Collections**

Finding type:            Material noncompliance; material weakness in internal controls over financial reporting.

Criteria:                The City is responsible for the collection of certain property taxes and remitting a portion of these amounts to other governmental entities within a reasonable amount of time.

Condition:              The City has collected PILOT payments that are due to other governmental entities. Amounts were collected in 2008 and 2009 that have not yet been remitted to the appropriate unit of government.

Cause:                  The City has not assigned a specific individual this responsibility.

Effect:                  There is a liability on the City's books for approximately \$744,000. However, this general ledger amount is not periodically reconciled, and therefore not remitted timely to the appropriate units of government to which they are due.

Recommendation:      We recommend that the Treasurer's Department implement procedures to ensure that identified deficiencies are corrected.

View of  
Responsible  
Official:                The City plans to assign a specific individual the responsibility of reconciling and remitting PILOT payments as recommended.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-6                      Independent Approval for Journal Entries**

Finding type:                      Significant deficiency in internal controls over financial reporting.

Criteria:                              Management is responsible for establishing effective internal controls to safeguard the City’s assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City’s records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City’s accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition:                              In certain instances, it was noted that journal entries were not being reviewed by an individual independent of the preparer. Specific instances noted include:

- The Treasurer has the ability to both prepare and approve the same journal entry.
- Monthly journal entries prepared by the Court to record cash receipts were not reviewed by management.

Cause:                                      The City and Court do not have sufficient controls in place to ensure that all journal entries are approved by an appropriate member of management, independent of the preparer.

Effect:                                      While we are not aware of any actual misstatements caused by this condition, the City and Court were nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation:                      We recommend that the City and Court establish procedures requiring independent review and approval for all journal entries.

View of Responsible Official:                      The City plans to implement a BSA system to improve record keeping. This system will require approval of all journal entries by the Finance Director.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-7                      Court Bonds Payable**

Finding type:            Significant deficiency in internal controls over financial reporting.

Criteria:                 The Court uses an agency funds to account for bonds held on behalf of outside parties. Accordingly, the Court is required to keep accurate subsidiary records of the amounts held in this liability account. This account should be analyzed and reconciled on a regular basis (e.g. monthly or quarterly).

Condition:                We requested detail for the bonds payable account in the Court’s agency fund. The Court was able to provide subsidiary records, however, these records did not agree with the amount recorded on the City’s general ledger. We were able to substantiate the offsetting cash balances in its entirety; however it was noted that this general ledger account was not periodically reconciled.

Cause:                    The Court does not have an established policy requiring the periodic reconciliation of this balance sheet account.

Effect:                    As a result of the condition, the City is exposed to an increased risk that misstatements, whether through error of fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in agency funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds. Accordingly, it is especially important that these funds be reconciled regularly. While the related cash balances were reconciled, this only confirms that the amounts actually on hand, not the balances that should be on hand.

Recommendation:        We recommend that the Court establish procedures to ensure that all liability accounts accounted for in agency funds be analyzed and reconciled on a regular basis.

View of Responsible Official:        The City has limited control over the operations of the Court. However, as a part of the review of court operations by the State Court Administrative Office, this lack of reconciliation will be addressed.



**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2011-8                      Invoicing**

Finding type:                      Significant deficiency in internal controls over financial reporting.

Criteria:                              The Treasurer’s Office is responsible for creating and invoicing the Pontiac Housing Commission once a request for billing has been received.

Condition:                            The Treasurer’s Office has received multiple requests for billings for which invoices have not yet been prepared.

Cause:                                 The City lacks a sufficient number of personnel in the Treasurer’s Department to ensure that all duties are performed as required.

Effect:                                 This lack of control over invoicing leads to a higher risk that invoices will not go out to the Pontiac Housing Commission in a timely manner resulting in the City not receiving revenue due in a timely manner.

Recommendation:                 We recommend that the Treasurer’s Department implement procedures to ensure that requests for billings are properly tracked and invoices are prepared and sent out within a reasonable time frame.

View of  
Responsible  
Official:                                The City has ceased providing services to the Pontiac Housing Commission. Invoices for all services rendered prior to the termination of services have been created and the City is awaiting signature on an agreement relative to payment of the outstanding amount.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONCLUDED)**

**2011-9                      Purchasing Procedures (repeat finding)**

Finding type:                      Material weakness in internal controls over financial reporting.

Criteria:                              Management is responsible for ensuring proper controls are in place over the purchasing function of the City.

Condition:                            During our audit, we reviewed the City’s medical costs including amounts paid to the City’s health insurance provider. We noted that a signed contract did not exist between the City and its health insurance provider for a period of time.

Cause:                                    The City’s internal controls did not ensure that all purchases follow the policies of the City.

Effect:                                    The City did not follow its purchasing policy.

Recommendation:                    We recommend that the City implement procedures to ensure that the City’s purchasing policies are being followed.

View of Responsible Official:                      The City has since obtained a signed contract with its health insurance provider. Furthermore, the City is in the process of attempting to consolidate the number of health plans offered to active employees and retirees. Following this consolidation, a new agreement will be executed for health insurance.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2011-10 Cash Management – Cash Requests (repeat finding)**

Finding type: Material Noncompliance; Material weakness in internal controls over compliance

Program: Highway Planning and Construction Cluster; U.S. Department of Transportation; CFDA #20.205; passed through the Michigan Department of Transportation; project numbers 107374, 103472, 107379 and 49864C.  
Clean Water State Revolving Funds; U.S. Environmental Protection Agency; CFDA# 66.458; passed through the Michigan Department of Environmental Quality; project number 2W-00E752-01.  
Drinking Water State Revolving Funds; U.S. Environmental Protection Agency; CFDA# 66.468; passed through the Michigan Department of Environmental Quality; project number 2F-00E751-01.

Criteria: The OMB Circular A-133 Compliance Supplement requires that federal funds recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Condition: During our testing, we noted reimbursement was requested for expenses that were not paid timely in comparison to the date of the drawdown of federal funds.

Cause: The Department of Public Works and Utilities does not currently have a formal review procedure designed to ensure that funds are expended before or shortly after they are requested for reimbursement.

Effect:

- Highway Planning and Construction Cluster – 2 of 9 invoices selected for testing were not disbursed timely after the transfer of funds from the U.S. Treasury.
- Clean Water State Revolving Funds – 12 of 19 invoices selected for testing were not disbursed timely after the transfer of funds from the U.S. Treasury.
- Drinking Water State Revolving Funds – 17 of 19 invoices selected for testing were not disbursed timely after the transfer of funds from the U.S. Treasury.

No costs were questioned as a result of this finding.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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Recommendation: We recommend that the Department of Public Works and Utilities implement a review process to ensure that time is minimized between the transfer of funds from the U.S. Treasury and disbursement.

View of Responsible Official: The City recently hired an experienced DPW Director. This individual will be instructed to ensure that procedures are implemented to ensure that the time is minimized between the transfer of funds from the U.S. Treasury and disbursement.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
(CONTINUED)**

**2011-11                      Reporting – 1512 Reports (repeat finding)**

Finding type:                      Noncompliance; Significant deficiency in internal controls over compliance

Program:                              Clean Water State Revolving Funds; U.S. Environmental Protection Agency; CFDA# 66.458; passed through the Michigan Department of Environmental Quality; project number 2W-00E752-01.  
    Drinking Water State Revolving Funds; U.S. Environmental Protection Agency; CFDA# 66.468; passed through the Michigan Department of Environmental Quality; project number 2F-00E751-01.

Criteria:                                As part of the Federal Government’s transparency and oversight requirements of the Recovery Act, section 1512 of the Act requires reporting on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. Among other things, the recipients’ reports are required to disclose the vendors receiving more than \$25,000 of Recovery Act funds.

Condition:                              The Department of Public Works and Utilities does not have procedures in place to ensure that the 1512 reports properly report vendors that receive \$25,000 or more in Recovery Act funds directly from the recipient.

Cause:                                    The Department of Public Works and Utilities’ procedures related to these requirements were not sufficient to prevent noncompliance with section 1512 of the Recovery Act.

Effect:                                    ➤ Clean Water State Revolving Funds – 3 vendors received cumulative payments of \$25,000 or more from the City and were excluded from the 1512 report.  
    ➤ Drinking Water State Revolving Funds – 1 vendor received cumulative payments of \$25,000 or more from the City and was excluded from the 1512 report and 2 vendors listed on a quarterly 1512 report did not receive \$25,000 of cumulative payments from the City.

    No costs were questioned as a result of this finding.

Recommendation:                      We recommend that the Department of Public Works and Utilities implement a review process to ensure that identified deficiencies are corrected.

View of Responsible Official:                      The City has recently hired an experienced DPW Director. This individual will be instructed to coordinate with accounts payable to ensure that procedures are implemented to ensure that the 1512 reports are properly prepared.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
(CONCLUDED)**

**2011-12                      Reporting – Reimbursement Requests**

Finding type:                      Material Noncompliance; Material weakness in internal controls over compliance

Program:                              Highway Planning and Construction Cluster; U.S. Environmental Protection Agency; CFDA #20.205; passed through the Michigan Department of Transportation; project numbers 107374, 103472, 107379 and 49864C.

Criteria:                              The City is responsible for submitting reimbursement requests in a timely manner and ensuring that all federal revenues and expenditures are recorded in the City’s general ledger. Furthermore, the City is responsible for preparing the schedule of expenditures of Federal awards (“SEFA”) in accordance with OMB Circular A-133.

Condition:                              The Department of Public Works and Utilities had multiple federal grant programs during the year of which expenditures had been incurred; however, reimbursement had not yet been requested. The City used the federal revenue general ledger accounts to initially record the amounts on the SEFA. Since the reimbursement requests had not yet been completed, these amounts had not yet been recorded in the federal revenue accounts.

Cause:                                      The Department of Public Works and Utilities had many staffing changes during the year resulting in reimbursement requests not being completed in a timely manner.

Effect:                                      Reimbursement requests were not submitted in a timely manner and federal revenue and the SEFA were initially understated by \$61,890. These adjustments were approved and posted by management.

No costs were questioned as a result of this finding.

Recommendation:                      We recommend that the Department of Public Works and Utilities implement procedures to ensure reimbursement requests are completed in a timely manner and are recorded in the general ledger and that procedures are put in place to ensure that all federal expenditures are captured on the SEFA.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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View of  
Responsible  
Official:

The City recently hired an experienced DPW Director. This individual will be instructed to ensure that procedures are implemented to ensure that the reimbursement requests are completed in a timely manner and are recorded in the general ledger. Procedures will also be put in place to ensure that all federal expenditures are recorded on the SEFA.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS**

- 2010-08      Cash Management – Cash Requests**  
*Highway Planning and Construction Cluster (CFDA # 20.205)*  
Finding not adequately resolved. See finding 2011-10 for current year finding.
- 2010-09      Reporting – 1512 Reports**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
*Clean Water State Revolving Funds (CFDA # 66.458)*  
*Drinking Water State Revolving Funds (CFDA # 66.468)*  
Finding adequately resolved for CDBG Grants, however, not adequately resolved for Clean and Drinking Water State Revolving Funds. See finding 2011-11 for current year finding.
- 2010-10      Cash Management – Cash Requests**  
*Clean Water State Revolving Funds (CFDA # 66.458)*  
*Drinking Water State Revolving Funds (CFDA # 66.468)*  
Finding not adequately resolved. See finding 2011-10 for current year finding.
- 2010-11      Subrecipient Monitoring – During-the-Award Monitoring**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
*HOME Investment Partnership Program (CFDA # 14.239)*  
Finding adequately resolved.
- 2010-12      Reporting – HUD 60002 Report**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
*HOME Investment Partnership Program (CFDA # 14.239)*  
Finding adequately resolved.
- 2010-13      Special Tests and Provisions – Accounting for ARRA Expenditures**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding adequately resolved.
- 2010-14      Allowable Costs/Cost Provisions – Disbursement Documentation**  
*Clean Water State Revolving Funds (CFDA # 66.458)*  
*Drinking Water State Revolving Funds (CFDA # 66.468)*  
Finding adequately resolved.



**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS (CONCLUDED)**

- 2010-15      Subrecipient Monitoring – During-the-Award Monitoring**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
*HOME Investment Partnership Program (CFDA # 14.239)*  
Finding adequately resolved.
- 2010-16      Procurement – Open Competition**  
*HOME Investment Partnership Program (CFDA # 14.239)*  
Finding adequately resolved.
- 2010-17      Equipment and Real Property Management**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding adequately resolved.

\* \* \* \* \*

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

December 29, 2011

To the Emergency Manager  
City of Pontiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the “City”) for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. Other auditors audited the financial statements of the General City Employees’ Retirement System, the Police and Fire Retirement System, the General Employee’s Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City of Pontiac’s financial statements. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated August 26, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

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

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

### **Significant Results of the Audit**

#### *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 are described in Note 1 to the financial statements. Other than the adoption of GASB Statement No. 54, which revised the classifications of fund balance in the City's governmental funds and caused multiple special revenue funds to be combined with the general fund, no other new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City 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:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- Management's estimate of the OPEB liability is based primarily on information provided by the third party actuary. The assumptions used in the actuarial valuation of the City's OPEB plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

We encountered no significant difficulties in dealing with management in performing and completing our audit, except that certain information (including the financial statements) was not available timely.

#### *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. Management has corrected all such misstatements. These misstatements are disclosed in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

#### *Disagreements with Management*

For purposes 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 attached management representation letter dated December 29, 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 entity’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.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Emergency Manager and management of the **City of Pontiac** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

# City of Pontiac

## Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City’s Single Audit report.

*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. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City’s Single Audit report.

### **Other Matters**

**Department of Public Works Cash Receipts.** The Department of Public Works (“DPW”) collects certain receipts, including right-of-way permits. Cash receipt forms are used; however, these receipts are not accounted for sequentially. In addition, there are no procedures in place to ensure that all cash collected is properly remitted for deposit in the bank and inclusion in the accounting records. To enhance internal controls in this area, we recommend that the DPW begin a process of tracking cash receipts sequentially to ensure all cash collected is being properly accounted for and deposited.

## City of Pontiac

### Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

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**State Checks (repeat).** During our testing of the City's cash and bank reconciliations, it came to our attention that there are a significant number of checks that have been outstanding for more than one year. Michigan Compiled Law (MCL) 567.234 states: "Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned." The law requires the person holding unclaimed property presumed abandoned and subject to the State's custody, to send written notification ("due diligence letter") to the owner at his/her last known address informing him/her that the property is subject to be turned over to the State of Michigan. The notice must be sent not less than 60 days before filing the report to the State of Michigan. MCL 567.238 requires the letter to the owner along with the unclaimed property to be filed with the State Treasurer on or before November 1 of each year for the twelve month period ending on the immediately preceding June 30. We recommend that the City examine old outstanding checks and follow the procedures detailed above.

**General IT Controls (repeat).** Based on our evaluation of internal controls over information technology (IT) used in financial operations, the following items should be considered:

- Require the use of complex passwords that use multiple characters, such as, upper case, lower case, numbers and symbols. In addition, user access should be periodically reviewed to assure privileges originally granted agree with what was approved.
- Strengthen procedures to detect and/or prevent the use of unauthorized software.
- Electronic reports that are not printed should be filed in a document management system.
- Error and exception reports that are created by processing routines should be reviewed.

**Cash Flows (repeat).** Several funds and one of the City's component units reported advances due to other funds and component units relating to operating cash flow needs. Given the financially distressed state of the City and its cash flow issues, we recommend that the City evaluate whether such interest free loans are a prudent business practice. Future loans, if any, should include formal repayment terms and interest provisions, to the extent provided by law.

\* \* \* \* \*



**CITY OF PONTIAC**  
**OFFICE OF THE EMERGENCY MANAGER**  
**LOUIS H. SCHIMMEL**

47450 Woodward Avenue  
Pontiac, Michigan 48342  
Telephone: (248) 758-3133  
Fax: (248) 758-3292

December 29, 2011

Rehmann Robson  
1500 W. Big Beaver, 2<sup>nd</sup> Floor  
Troy, MI 48084

We are providing this letter in connection with your audit of the financial statements of the *City of Pontiac* as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements 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 Pontiac and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 29, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
  - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.



5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives and whether related recommendations have been implemented.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
  - b. Guarantees, whether written or oral, under which the City is contingently liable.
  - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

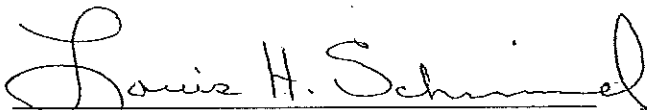
15. Except as disclosed to you, there are no—
  - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance except for items disclosed in the annual financial report including Fund deficits and General Fund expenditures exceeding budget appropriations.
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*).
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*).
  - d. Restrictions, commitments, or assignments of fund equity that were not properly authorized and approved.
16. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
17. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance restrictions, commitments and assignments are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Special and extraordinary items are appropriately classified and reported.

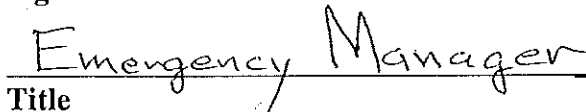
28. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
30. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
31. With respect to federal award programs:
  - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - d. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
  - e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
  - f. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
  - g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.


- h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- i. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken up to the date of the auditor's report.
- m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- p. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared except for findings noted in the Single Audit Report.
- q. We have charged costs to federal awards in accordance with applicable cost principles.
- r. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We have monitored sub recipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of sub recipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that sub recipients have taken the appropriate and timely corrective action on findings.

- u. We have considered the results of sub recipient audits and have made any necessary adjustments to our books and records.
- v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- x. We are responsible for preparing and implementing a corrective action plan for each audit finding.

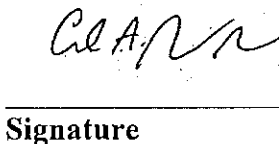
No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

  
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Signature

  
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