

City of Pontiac,
Michigan



Year Ended
June 30, 2013

Financial
Statements

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CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 23, 2013

Transition Advisory Board
Joseph M. Sobota, City Administrator
City Council
City of Pontiac
Pontiac, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac, Michigan*, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employees' Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, which represents 99.8%, 100% and 100%, respectively, of the assets, net position, and additions of the fiduciary funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employees' Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, is 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 Employees' 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedules for the general fund, major streets special revenue fund and sanitation special revenue fund, and the schedules of funding progress and employer contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013 on our consideration of the City of Pontiac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pontiac's internal control over financial reporting and compliance.

Rehmann Loborn LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Our discussion and analysis of the City of Pontiac, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. 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, 2013:

- The general fund ended the fiscal year with a fund balance of \$875,083 for the year ended June 30, 2013, eliminating the prior year fund deficit of \$3,425,594 despite significant drops in property taxes (\$2.2 million) and charges for service (\$2.9 million). The end of year surplus was the direct result of a total of \$48.9 million in other financing sources (uses).
- In August of 2012, the City of Pontiac disposed of its water distribution and sanitary sewer systems and waste water treatment plant for \$55 million. Five million dollars was retained by the operator for deferred maintenance needs of the systems. After all water and sewer related debt was paid, the proceeds were transferred to the City's general fund.
- The City used proceeds from water and sewer system disposal to eliminate the operational deficit of the general fund and pay-off all government obligation bond issues except for the 2007C Tax Increment Finance Authority refunding bond.
- The City closed its Department of Public Works and sold all associated property and equipment.
- The City's revenue sources continued to decrease in the current year compared to the prior year.

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

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

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 Financial 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 position 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 position and how it has changed. Net position, 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 position is 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. Income taxes, grants, property taxes, and licenses and permits finance most of these activities.
- *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.
- *Discretely Presented 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. Effective July 1, 2012, the City has dissolved the Downtown Development Authority (DDA). Also, effective July 1, 2012, the City has repealed the City's Economic Development Corporation (EDC).

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).

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

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.

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 position and a statement of changes in fiduciary net position. 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 position as of the current date:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$27,157,889	\$20,346,313	\$ 2,531,216	\$22,748,758	\$29,689,105	\$43,095,071
Capital assets, net	105,891,017	107,799,788	15,029,881	66,691,295	120,920,898	174,491,083
Total assets	133,048,906	128,146,101	17,561,097	89,440,053	150,610,003	217,586,154
Liabilities						
Current liabilities	13,166,869	14,164,323	137,015	2,461,121	13,303,884	16,625,444
Long-term liabilities	53,160,103	55,649,952	-	19,007,267	53,160,103	74,657,219
Total liabilities	66,326,972	69,814,275	137,015	21,468,388	66,463,987	91,282,663
Net position:						
Net investment in capital assets	105,891,017	106,022,744	15,029,881	50,980,831	120,920,898	157,003,575
Restricted	8,587,974	7,501,211	-	1,712,756	8,587,974	9,213,967
Unrestricted	(47,757,057)	(55,192,129)	2,394,201	15,278,078	(45,362,856)	(39,914,051)
Total net position	\$66,721,934	\$58,331,826	\$17,424,082	\$67,971,665	\$84,146,016	\$126,303,491

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

A portion of the net position 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.

Consequently, unrestricted net position was a deficit of \$47.8 million in 2013. 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 position total \$2.4 million in 2013, these resources can only be used for their respective operations such as golf or parking operations and cannot be used to make up for declines in governmental net position.

The City's combined net position decreased by 33 percent from a year ago - decreasing from \$126.3 million for fiscal year 2012 to \$84.2 million in 2013. The decrease is comprised of a \$8.5 million increase in governmental activities net position and a \$50.5 million decrease in business-type activities net position.

For governmental activities, the majority of the increase is a result of the elimination of the \$8.0 million internal balance owed to the water and sewer funds.

For business-type activities, the decrease is primarily due to the disposal of the water distribution system, sanitary sewer system, and wastewater treatment plant and the disposal of all public works equipment.

The following table shows the changes of the net position during the current year:

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 8,465,027	\$ 8,207,529	\$ 2,816,869	\$22,709,848	\$11,281,896	\$30,917,377
Operating grants	9,367,411	18,643,330	313,831	103,497	9,681,242	18,746,827
Capital grants	-	-	-	577,858	-	577,858
General revenues:						
Property taxes	9,659,878	13,532,718	-	-	9,659,878	13,532,718
Income taxes	9,720,696	9,724,580	-	-	9,720,696	9,724,580
State shared revenues	8,848,429	8,427,715	-	-	8,848,429	8,427,715
Unrestricted investment earnings	2,244	2,956	-	458	2,244	3,414
Cable franchise fees	701,860	532,774	-	-	701,860	532,774
Contribution from component units	-	-	-	-	-	-
Total revenues	46,765,545	59,071,602	3,130,700	23,391,661	49,896,245	82,463,263

continued...

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Expenses:						
General government	27,989,679	26,886,395	-	-	27,989,679	26,886,395
Public safety	25,201,829	19,243,207	-	-	25,201,829	19,243,207
Public works	12,575,670	2,983,478	-	-	12,575,670	2,983,478
Health and welfare	138,230	-	-	-	138,230	-
Community development	20,761,832	8,896,024	-	-	20,761,832	8,896,024
Community and human services	802,853	758,042	-	-	802,853	758,042
Recreation	585,909	-	-	-	585,909	-
Interest on long-term debt	504,894	988,547	-	-	504,894	988,547
Water	-	-	2,034,981	11,766,610	2,034,981	11,766,610
Sewer	-	-	1,750,307	8,989,117	1,750,307	8,989,117
Parking	-	-	900,836	1,354,507	900,836	1,354,507
Golf course	-	-	14,476	45,831	14,476	45,831
Total expenses	88,560,896	59,755,693	4,700,600	22,156,065	93,261,496	81,911,758
Excess of revenue (under) over expenses before special items and transfers	(41,795,351)	(684,091)	(1,569,900)	1,235,596	(43,365,251)	551,505
Special items						
Debt forgiveness	-	9,508,303	-	500,000	-	10,008,303
Gain on sale of assets	-	-	46,581,102	-	46,581,102	-
Loss on transfer of operation	-	-	(45,373,326)	-	(45,373,326)	-
Transfers	50,185,459	(1,602,144)	(50,185,459)	1,602,144	-	-
Change in net position	8,390,108	7,222,068	(50,547,583)	3,337,740	(42,157,475)	10,559,808
Net position:						
Beginning of year	58,331,826	51,109,758	67,971,665	64,633,925	126,303,491	115,743,683
End of year	<u>\$66,721,934</u>	<u>\$58,331,826</u>	<u>\$17,424,082</u>	<u>\$67,971,665</u>	<u>\$84,146,016</u>	<u>\$126,303,491</u>

concluded.

Governmental Activities. Overall, revenue decreased to approximately \$46.7 million for 2013, which is a decrease of approximately \$12.3 million from last year's total of \$59.0 million. The decrease is a result of a substantial decrease in operating grants and property taxes.

Expenses for the City's governmental activities totaled \$88.6 million, which is an increase of approximately \$28.7 million from last year's total of \$59.8 million. The increase in the overall expense is due to increased expenditures in community development and public works.

Overall total net position increase by approximately \$8.4 million to \$66.8 million compared to the 2012 total of \$58.3 million. The primary reason for the overall increase was the transfer in from the water and sewer funds.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. The City's business-type activities consist of the water, sewer, parking, and golf course funds.

Overall, revenue decreased \$20.2 million because of the reduction of the charges for services and expenses decreased \$17.4 million because of the reduction of the water and sewer expenses due to the disposal of the water distribution and sanitary sewer systems and wastewater treatment plant.

The parking fund accounts for the activity of Lot 9 and the Phoenix Center. The operating loss for 2013 was approximately \$0.4 million compared to \$0.5 million in 2012.

The City-owned golf course sustained and operating loss in 2013 of \$645 compared to approximately \$33,000 in 2012.

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 City had four major governmental funds for the fiscal year ended June 30, 2013: the general fund, major street fund, sanitation fund, and ML King construction fund. The general fund records the financial activities of the normal operations of the City. The major street fund, a special revenue fund, records the financial activities that occur on streets classified as major roads in accordance with Public Act 51 of 1951. The sanitation fund, a special revenue fund, records the financial activities of the City's attempts to close its landfill and to pay for sanitation service provided by the City's waste collection contractor. The ML King construction fund, a capital projects fund, records the financial activities of the City relating to the expenses of reconstructing a portion of Martin Luther King Jr. Blvd; most of the project is funded by a grant.

The general fund experienced a \$6.6 million reduction in revenue compared to 2012. This was primarily the result of a decrease in charges for services of approximately \$2.9 million and a reduction in property taxes of approximately \$2.2 million. Other revenue also was reduced by \$1.2 million. Income tax revenue has stabilized and state revenue had a slight increase. The reduction in property tax revenue has been a continuing issue for the City for many years. The decrease in charges for services was the result of the City disposing of most of its business-type activities early in the fiscal year, thus the general fund was no longer required to provide and could no longer charge for services. Total expenditures in the general fund increased from \$40.0 million in 2012 to \$76.7 million in 2013 mainly because the general fund paid off nearly all of the bonds issued by the Tax Increment Finance Authority for community development activities. Community development expenditures increased from \$2.1 million in 2012 to \$20.1 million in 2013. In addition, the City paid off its 2006 Fiscal Stabilization Bond, thus resulting in an increase in debt service from \$2.2 million in 2012 to \$16.5 million in 2013. By paying off nearly all government obligation debt, the City saved over \$4.0 in future interest payments and freed several hundreds of thousands of dollars each fiscal year to meet regular operating expenditures. Increases in insurance costs resulted in an increase in general and special programs from \$6.0 million in 2012 to \$12.4 million in 2013. The full benefit of contracting with Waterford Township for fire protection services was realized as public safety costs decreased from \$23.3 million in 2012 to \$20.3 million in 2013.

Expenditures in the major street fund and sanitation fund remained relatively constant between 2012 and 2013, however revenues in the major street fund decreased approximately \$650,000 due to a total loss of federal sources and a \$500,000 decrease in state sources and revenues in the sanitation fund increased from \$4.0 million in 2012 to \$4.6 million in 2013. Sanitation fund property taxes decreased from \$3.2 million in 2012 to \$1.3 million in 2013, but the addition of a new sanitation fee resulted in an increase in charges for services from \$800,000 in 2012 to \$3.3 million in 2013, thus eliminating the need for any general fund subsidy. The ML King construction fund experienced little expenditures but received \$270,000 in state sources. A fund deficit remains due to the timing of the receipt of the final reimbursement owed to the City.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

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

	2008	2009	2010	2011	2012	2013
Fund balance (deficit):						
Unreserved (deficit)	\$ (7,071,957)	\$ (4,790,071)	\$ (4,089,199)	\$ -	\$ -	\$ -
Reserved	64,000	-	-	-	-	-
Nonspendable	-	-	-	-	1,322,523	842,115
Unassigned (deficit)	-	-	-	554,732	(4,748,117)	32,968
Total fund balance (deficit)	\$ (7,007,957)	\$ (4,790,071)	\$ (4,089,199)	\$ 554,732	\$ (3,425,594)	\$ 875,083

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

The general fund ended the fiscal year with a \$875,083 surplus at year end because of the transfer in of proceeds after the disposal of the water distribution and sanitary sewer systems and waste water treatment plant.

See the economic factors and next year's budget and rates section for more information on the City's plans to stabilize finances.

Capital Asset and Debt Administration

The City recognized \$10.7 million in new streets and bridges in 2013 governmental activities while disposing of all internal service fund assets in the amount of \$2.3 million. All water fund and sewer fund business-type assets were disposed in 2013 totaling \$51.1 million. The Strand Theater was sold in 2013 for a significant loss, resulting in the disposal of \$6.0 million in the capital assets of the former Economic Development Corporation. The final asset of the Downtown Development Authority, Lot 9, was also disposed in 2013. More information on capital asset activities can be found in Note 6.

The City incurred no new debt in 2013 and paid off all business-type activity debt, all governmental activity debt except landfill closure and post closure costs, compensated absences, and the 2012 Crown Enterprise tax appeal settlement, and all component unit debt except the 2007 C TIFA Bonds. See Note 8 for more detailed information.

Economic Factors and Next Year's Budgets and Rates

During calendar year 2013, the City disposed of several large parcels of property that will be placed on the 2014 tax roll. Two of the largest property disposals included the Pontiac Municipal Golf Course, which occurred subsequent to the City's fiscal year end and Lot 9, which occurred during the fiscal year. By disposing of these parcels, the City eliminated all liability for these properties and instead of being drains on the City's finances will now become taxable properties.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

In 2013, the City of Pontiac was awarded nearly \$4.8 million in funding options to eliminate blighted properties in the City. Nearly \$1.0 million will be used to demolish privately owned blighted residential and commercial structures by the end of 2013 under the Michigan Blight Grant, meaning the taxable value of these parcels will be removed from the 2014 tax roll. The remaining \$3.7 million under the Hardest Hit Program will be used to demolish County-owned blighted residential units. Under the terms of the award, the \$3.7 million is a five-year forgivable loan which assume the property will not be sold for a period of five years after demolition. The United States Treasury Department may forgive the loan before the five-year period expires, but there are no assurances, thus the City must assume that these properties will remain tax free for at least five years after demolition concludes. A minimum of 150 houses will be demolished with this source of funding.

In 2013, the City of Pontiac granted a tax abatement to General Motors for the construction of a new research and development center. Ground will be broken during the 2014 fiscal year. Construction is expected to take two years. As a result of this project, the City is expected to receive a significant one-time increase in construction code permit fees for the 2014 fiscal year.

As of July 1, 2013, the City is operating under a two-year balanced budget adopted by the Emergency Manager. Any amendments to the budgets for fiscal years 2014 and 2015 must be approved by the State Treasurer. In addition, no order, ordinance, policy, or contract implemented by the Emergency Manager can be amended or cancelled without the permission of the City Administrator and the Transition Advisory Board.

As of July 1, 2013, none of the City's employees are covered under a collective bargaining agreement. Only the employees of the 50th District Court are covered under a collective bargaining agreement which expires June 30, 2016. At that time, District Court union employees will be required by law to share in the costs of their health insurance, which is expected to save the City at least \$7,000 per employee.

As of September 1, 2013, the City participates in a fully-insured health insurance program. Before September 1, 2013, the City's health and dental insurance plans were self-insured, meaning that the City was responsible for the first \$250,000 of claims per contract. Run out of prior claims is expected for two years until August 31, 2015.

Effective September 1, 2013, the City of Pontiac received permission from the State Treasurer to temporarily modify collective bargaining agreement by eliminating the City's responsibility to provide and fund health insurance, life insurance, optical insurance, hearing insurance, and dental insurance benefits for its retirees for two years or the period of receivership, whichever is longer. A group of retirees sued the City and sought a temporary restraining order which was denied. This decision is expected to save the City at least \$6 million per year and allows the City to operate under a structurally balanced budget. The City also won an appeal at the 6th Circuit Court of appeals that upheld the ruling of a federal District Court judge which allowed the City to temporarily modify the level of benefits. Each of these rulings has allowed the City to continue to operate with a balanced budget. If however, a court orders the City to reinstate any form of benefits and pay for them, then the City will no longer have a balanced budget.

In addition, the City is not required to fund the ARC for the Police and Fire Retiree Prefunded Group Health and Insurance Trust during the period of receivership. This will save the City at least \$4.0 million per year.

Contacting the City's Management

The 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 incorporates the term of Emergency Manager Louis H. Schimmel, whom resigned on August 19, 2013. If you have questions about this report or need additional information, contact the Finance Director at Pontiac City Hall, 47450 Woodward Ave., Pontiac, Michigan 48342.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Statement of Net Position

June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and investments	\$ 16,597,958	\$ 2,485,431	\$ 19,083,389	\$ 702,353
Receivables, net	6,810,138	45,785	6,855,923	3,866
Other assets	1,252,079	-	1,252,079	-
Restricted assets	2,497,714	-	2,497,714	-
Capital assets not being depreciated	47,385,301	3,900,214	51,285,515	-
Capital assets being depreciated, net	58,505,716	11,129,667	69,635,383	5,274,659
Total assets	133,048,906	17,561,097	150,610,003	5,980,878
Liabilities				
Accounts payable and accrued liabilities	13,166,869	137,015	13,303,884	677,910
Long-term liabilities:				
Due within one year	117,649	-	117,649	1,307,529
Due in more than one year	2,276,513	-	2,276,513	25,332,439
Other noncurrent liabilities:				
Net other postemployment benefit obligation	50,301,010	-	50,301,010	-
Net pension obligation	464,931	-	464,931	-
Total liabilities	66,326,972	137,015	66,463,987	27,317,878
Net position				
Net investment in capital assets	105,891,017	15,029,881	120,920,898	-
Restricted for:				
Roads	2,608,124	-	2,608,124	-
Drug enforcement	265,805	-	265,805	-
Capital projects	399,430	-	399,430	-
Sanitation	2,590,851	-	2,590,851	-
Drains	589,801	-	589,801	-
Senior activities	1,072,465	-	1,072,465	-
Cable television	1,061,498	-	1,061,498	-
Unrestricted (deficit)	(47,757,057)	2,394,201	(45,362,856)	(21,337,000)
Total net position (deficit)	\$ 66,721,934	\$ 17,424,082	\$ 84,146,016	\$ (21,337,000)

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

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 27,989,679	\$ 2,181,646	\$ 2,368,857	\$ (23,439,176)
Public safety	25,201,829	2,755,107	143,549	(22,303,173)
Public works	12,575,670	3,354,032	4,982,440	(4,239,198)
Health and welfare	138,230	-	159,789	21,559
Community development	20,761,832	169,777	1,689,744	(18,902,311)
Community and human services	802,853	-	10,693	(792,160)
Recreation	585,909	4,465	12,339	(569,105)
Interest on long-term debt	504,894	-	-	(504,894)
Total governmental activities	88,560,896	8,465,027	9,367,411	(70,728,458)
Business-type activities:				
Water fund	2,034,981	1,612,105	-	(422,876)
Sewer fund	1,750,307	999,413	-	(750,894)
Parking fund	900,836	205,351	300,000	(395,485)
Golf course fund	14,476	-	13,831	(645)
Total business-type activities	4,700,600	2,816,869	313,831	(1,569,900)
Total primary government	\$ 93,261,496	\$ 11,281,896	\$ 9,681,242	\$ (72,298,358)
Component units				
Tax Increment Financing Authority	\$ 2,715,154	\$ -	\$ -	\$ (2,715,154)
Downtown Development Authority	672,055	-	-	(672,055)
Economic Development Authority	7,363,660	-	-	(7,363,660)
Total component units	\$ 10,750,869	\$ -	\$ -	\$ (10,750,869)

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (70,728,458)	\$ (1,569,900)	\$ (72,298,358)	\$ (10,750,869)
General revenues				
Property taxes	9,659,878	-	9,659,878	1,588,869
Income taxes	9,720,696	-	9,720,696	-
State-shared revenue (unrestricted)	8,848,429	-	8,848,429	-
Unrestricted investment earnings	2,244	-	2,244	30,052
Cable franchise fees	701,860	-	701,860	-
Other general revenues	-	-	-	1,729,570
Contributions from primary government	-	-	-	19,700,563
Transfers	50,185,459	(50,185,459)	-	-
Total general revenues and transfers	79,118,566	(50,185,459)	28,933,107	23,049,054
Special items				
Gain on sale of assets	-	46,581,102	46,581,102	-
Loss on transfer of operations	-	(45,373,326)	(45,373,326)	-
Total special items	-	1,207,776	1,207,776	-
Change in net position	8,390,108	(50,547,583)	(42,157,475)	12,298,185
Net position (deficit), beginning of year	58,331,826	67,971,665	126,303,491	(33,635,185)
Net position (deficit), end of year	\$ 66,721,934	\$ 17,424,082	\$ 84,146,016	\$ (21,337,000)

concluded.

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

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FUND FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2013

	General	Major Streets	Sanitation
Assets			
Cash and investments	\$ 2,170,838	\$ 576,204	\$ 930,293
Accounts receivable	801,128	-	18,724
Taxes receivable, net	2,399,937	-	7,401
Due from other governments	1,673,674	548,029	-
Due from other funds	-	898,278	-
Prepays	842,115	-	-
Restricted cash and cash equivalents	-	-	2,497,714
Total assets	\$ 7,887,692	\$ 2,022,511	\$ 3,454,132
Liabilities			
Accounts payable	\$ 1,723,587	\$ 196,695	\$ 508,901
Accrued wages	95,322	393	3,156
Due to other governments	3,428,184	-	343,823
Due to other funds	-	-	-
Deposits payable	628,405	-	-
Total liabilities	5,875,498	197,088	855,880
Deferred inflows of resources			
Unavailable revenue	1,137,111	-	7,401
Fund balances			
Nonspendable	842,115	-	-
Restricted	-	1,825,423	2,590,851
Unassigned (deficit)	32,968	-	-
Total fund balances	875,083	1,825,423	2,590,851
Total liabilities, deferred inflows of resources and fund balances	\$ 7,887,692	\$ 2,022,511	\$ 3,454,132

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

ML King Construction	Nonmajor Governmental Funds	Totals
\$ -	\$ 4,640,553	\$ 8,317,888
-	44,227	864,079
-	5,593	2,412,931
795,318	464,040	3,481,061
-	200,000	1,098,278
-	-	842,115
-	-	2,497,714
<u>\$ 795,318</u>	<u>\$ 5,354,413</u>	<u>\$ 19,514,066</u>
\$ 1,879	\$ 555,951	\$ 2,987,013
-	86,003	184,874
-	230,327	4,002,334
793,439	304,839	1,098,278
-	-	628,405
<u>795,318</u>	<u>1,177,120</u>	<u>8,900,904</u>
<u>524,050</u>	<u>310,432</u>	<u>1,978,994</u>
-	-	842,115
-	4,171,700	8,587,974
(524,050)	(304,839)	(795,921)
<u>(524,050)</u>	<u>3,866,861</u>	<u>8,634,168</u>
<u>\$ 795,318</u>	<u>\$ 5,354,413</u>	<u>\$ 19,514,066</u>

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CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2013

Fund balances - total governmental funds	\$ 8,634,168
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	47,385,301
Capital assets being depreciated	140,055,246
Accumulated depreciation	(81,549,530)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	
	1,978,994
Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
	2,830,055
Certain liabilities, such as bonds payable, property tax settlements and landfill closure and postclosure costs, are not due and payable in the current period, and therefore are not recorded in the funds.	
Tax settlement agreements	(7,947)
Landfill closure and postclosure costs	(1,838,412)
Net other postemployment benefit obligation	(50,301,010)
Net pension obligation	(464,931)
Net position of governmental activities	<u>\$ 66,721,934</u>

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

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2013

	General	Major Streets	Sanitation
Revenues			
Taxes	\$ 16,263,520	\$ -	\$ 1,342,704
Licenses and permits	2,348,281	-	-
Federal revenue	-	-	-
State revenue	8,967,340	3,201,261	-
Contributions from local units	159,789	-	-
Charges for services	1,663,943	-	3,295,344
Fines and forfeitures	-	-	-
Interest and rents	29,919	-	141
Other	2,686,773	22,666	1,454
Total revenues	32,119,565	3,223,927	4,639,643
Expenditures			
Current:			
General government	5,184,828	-	-
District court	-	-	-
Public safety	20,318,497	-	-
Public works	1,548,419	2,019,765	4,227,207
Health and welfare	138,230	-	-
Community development	20,006,927	-	-
Community and human services	-	-	-
Recreation	585,909	-	-
General and special programs	12,468,661	-	-
Debt service:			
Principal	15,350,000	-	-
Interest and other fiscal charges	1,142,552	-	-
Capital outlay	-	-	-
Total expenditures	76,744,023	2,019,765	4,227,207
Revenues over (under) expenditures	(44,624,458)	1,204,162	412,436
Other financing sources (uses)			
Transfers in	51,212,480	515,800	-
Transfers out	(2,287,345)	(434,907)	-
Total other financing sources (uses)	48,925,135	80,893	-
Net changes in fund balances	4,300,677	1,285,055	412,436
Fund balances (deficit), beginning of year	(3,425,594)	540,368	2,178,415
Fund balances (deficit), end of year	\$ 875,083	\$ 1,825,423	\$ 2,590,851

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

ML King Construction	Other Governmental Funds	Totals
\$ -	\$ 909,387	\$ 18,515,611
-	-	2,348,281
271,268	1,290,583	1,561,851
-	1,566,268	13,734,869
-	-	159,789
-	-	4,959,287
-	1,396,391	1,396,391
-	1,584	31,644
-	462,950	3,173,843
<u>271,268</u>	<u>5,627,163</u>	<u>45,881,566</u>
-	228,135	5,412,963
-	4,047,712	4,047,712
-	251,222	20,569,719
-	1,331,113	9,126,504
-	-	138,230
-	754,905	20,761,832
-	381,666	381,666
-	-	585,909
-	-	12,468,661
-	-	15,350,000
-	-	1,142,552
<u>16,899</u>	<u>273,892</u>	<u>290,791</u>
<u>16,899</u>	<u>7,268,645</u>	<u>90,276,539</u>
<u>254,369</u>	<u>(1,641,482)</u>	<u>(44,394,973)</u>
-	2,695,906	54,424,186
<u>(507,150)</u>	<u>(1,437,684)</u>	<u>(4,667,086)</u>
<u>(507,150)</u>	<u>1,258,222</u>	<u>49,757,100</u>
(252,781)	(383,260)	5,362,127
<u>(271,269)</u>	<u>4,250,121</u>	<u>3,272,041</u>
<u>\$ (524,050)</u>	<u>\$ 3,866,861</u>	<u>\$ 8,634,168</u>

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CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances
to Changes in Net Position of Governmental Activities
For the Year Ended June 30, 2013

Net changes in fund balances - total governmental funds	\$ 5,362,127
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	5,176,359
Depreciation expense	(4,522,962)
Loss on disposal of capital assets	(529,809)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment of reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	15,350,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
	(14,947)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on long-term liabilities	124,845
Amortization of debt-related costs	601,143
Change in compensated absences	335,067
Change in net other postemployment benefit obligation	(17,569,152)
Change in net pension obligation	1,265,559
Change in the accrual for tax settlement agreement	898,926
Change in the accrual for landfill closure and postclosure costs	379,065
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The change in the net position of the internal service funds is reported with governmental activities.	
	<u>1,533,887</u>
Change in net position of governmental activities	<u>\$ 8,390,108</u>

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

CITY OF PONTIAC, MICHIGAN

Statement of Fund Net Position

Proprietary Funds

June 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Golf Course
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 2,451,033	\$ 34,398
Accounts receivable	-	-	45,785	-
Prepays	-	-	-	-
Total current assets	-	-	2,496,818	34,398
Noncurrent assets				
Capital assets not being depreciated	-	-	3,166,454	733,760
Capital assets being depreciated, net	-	-	9,576,817	1,552,850
Total noncurrent assets	-	-	12,743,271	2,286,610
Total assets	-	-	15,240,089	2,321,008
Liabilities				
Current liabilities:				
Accounts payable	-	-	90,978	686
Accrued liabilities	-	-	-	-
Accrued wages	-	-	-	-
Due to other governments	-	-	15,734	-
Deposits payable	-	-	14,617	15,000
Current portion of compensated absences	-	-	-	-
Total current liabilities	-	-	121,329	15,686
Noncurrent liabilities -				
Compensated absences	-	-	-	-
Total liabilities	-	-	121,329	15,686
Net position				
Net investment in capital assets	-	-	12,743,271	2,286,610
Restricted	-	-	-	-
Unrestricted	-	-	2,375,489	18,712
Total net position	\$ -	\$ -	\$ 15,118,760	\$ 2,305,322

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



	Governmental Activities
Total	Internal Service Funds
\$ 2,485,431	\$ 8,280,070
45,785	52,067
-	409,964
<u>2,531,216</u>	<u>8,742,101</u>
3,900,214	-
11,129,667	-
<u>15,029,881</u>	<u>-</u>
<u>17,561,097</u>	<u>8,742,101</u>
91,664	231,900
-	5,131,323
-	1,020
15,734	-
29,617	-
-	115,000
<u>137,015</u>	<u>5,479,243</u>
-	432,803
<u>137,015</u>	<u>5,912,046</u>
15,029,881	-
-	2,830,055
2,394,201	-
<u>\$ 17,424,082</u>	<u>\$ 2,830,055</u>

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Golf Course
Operating revenues				
Charges for services	\$ 1,612,105	\$ 999,413	\$ 205,351	\$ -
Other operating revenue	-	-	300,000	13,831
Total operating revenues	1,612,105	999,413	505,351	13,831
Operating expenses				
Purchased water	551,666	-	-	-
Insurance	-	-	-	-
Operating and maintenance costs	1,018,855	1,161,880	365,870	14,476
Administration	242,721	218,863	-	-
Workers' compensation expense - net of change in liability	-	-	-	-
Depreciation	166,269	238,409	534,966	-
Total operating expenses	1,979,511	1,619,152	900,836	14,476
Operating income (loss)	(367,406)	(619,739)	(395,485)	(645)
Nonoperating expense				
Loss on sale of capital assets	-	-	-	-
Interest expense	(55,470)	(131,155)	-	-
Total nonoperating expenses	(55,470)	(131,155)	-	-
Income (loss) before special items and transfers	(422,876)	(750,894)	(395,485)	(645)
Transfers in	-	-	28,611	-
Transfers out	(1,989,911)	(48,224,159)	-	-
Special item - gain on sale of assets	-	46,581,102	-	-
Special item - loss on transfer of operations	(22,051,690)	(23,321,636)	-	-
Change in net position	(24,464,477)	(25,715,587)	(366,874)	(645)
Net position, beginning of year	24,464,477	25,715,587	15,485,634	2,305,967
Net position, end of year	\$ -	\$ -	\$ 15,118,760	\$ 2,305,322

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



	Governmental Activities
Total	Internal Service Funds
\$ 2,816,869	\$ 14,932,265
313,831	-
<u>3,130,700</u>	<u>14,932,265</u>
551,666	-
-	9,781,155
2,561,081	1,540,017
461,584	481,756
-	1,156,127
939,644	429,938
<u>4,499,499</u>	<u>13,388,993</u>
<u>(1,368,799)</u>	<u>1,543,272</u>
-	(349,414)
<u>(186,625)</u>	<u>(88,330)</u>
<u>(186,625)</u>	<u>(437,744)</u>
(1,569,900)	1,105,528
28,611	1,098,035
(50,214,070)	(669,676)
46,581,102	-
<u>(45,373,326)</u>	<u>-</u>
(50,547,583)	1,533,887
<u>67,971,665</u>	<u>1,296,168</u>
<u>\$ 17,424,082</u>	<u>\$ 2,830,055</u>

CITY OF PONTIAC, MICHIGAN

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Golf Course
Cash flows from operating activities				
Cash received from customers	\$ 8,355,772	\$ 4,452,795	\$ 464,231	\$ 23,831
Cash payments to suppliers	(1,994,410)	(1,100,744)	(318,162)	(28,790)
Cash payments to employees	-	-	-	-
Net cash provided by (used for) operating activities	<u>6,361,362</u>	<u>3,352,051</u>	<u>146,069</u>	<u>(4,959)</u>
Cash flows from noncapital financing activities				
Transfers in from other funds	-	-	28,611	-
Transfers to other funds	(1,989,911)	(48,224,159)	-	-
Net cash provided by (used for) noncapital financing activities	<u>(1,989,911)</u>	<u>(48,224,159)</u>	<u>28,611</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	55,000,000	-	-
Payment for facility reserve fund	(4,150,000)	(9,150,000)	-	-
Principal paid on bonds and capital leases	(1,695,000)	(3,060,000)	-	-
Interest paid on bonds and capital leases	(49,332)	(89,568)	-	-
Net cash provided by (used for) capital and related financing activities	<u>(5,894,332)</u>	<u>42,700,432</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	(1,522,881)	(2,171,676)	174,680	(4,959)
Cash and cash equivalents, beginning of year	<u>1,522,881</u>	<u>2,171,676</u>	<u>2,276,353</u>	<u>39,357</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,451,033</u>	<u>\$ 34,398</u>

	Governmental Activities
Total	Internal Service Funds
\$ 13,296,629	\$ 15,767,656
(3,442,106)	(11,268,911)
<u>-</u>	<u>(910,617)</u>
9,854,523	3,588,128
<u>28,611</u>	<u>1,098,035</u>
(50,214,070)	(669,676)
<u>(50,185,459)</u>	<u>428,359</u>
55,000,000	1,545,831
(13,300,000)	-
(4,755,000)	(1,777,044)
<u>(138,900)</u>	<u>(191,077)</u>
36,806,100	(422,290)
(3,524,836)	3,594,197
<u>6,010,267</u>	<u>4,685,873</u>
<u>\$ 2,485,431</u>	<u>\$ 8,280,070</u>

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Golf Course
Reconciliation of operating income (loss) to net cash used for operating activities				
Operating income (loss)	\$ (367,406)	\$ (619,739)	\$ (395,485)	\$ (645)
Adjustments to reconcile operating income (loss) to net cash used for operating activities				
Depreciation expense	166,269	238,409	534,966	-
Change in:				
Accounts receivable	943,667	1,253,382	(41,120)	10,000
Due from other funds	5,800,000	2,200,000	-	-
Inventories	-	-	-	-
Prepays	-	-	-	-
Accounts payable	(180,690)	279,999	72,455	686
Accrued liabilities	-	-	-	-
Accrued wages	-	-	(11,428)	-
Due to other governments	-	-	(12,649)	-
Deposits payable	(478)	-	(670)	(15,000)
Compensated absences	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 6,361,362</u>	<u>\$ 3,352,051</u>	<u>\$ 146,069</u>	<u>\$ (4,959)</u>

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



	Governmental Activities
Total	Internal Service Funds

\$ (1,383,275) \$ 1,543,272

939,644 429,938

2,165,929 669,064

8,000,000 -

- 154,127

- 149,607

172,450 (5,274)

- 100,454

(11,428) (863)

(12,649) -

(16,148) -

- 547,803

\$ 9,854,523 \$ 3,588,128

concluded.

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position
Fiduciary Funds

	December 31, 2012	June 30, 2013
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 93,313	\$ 1,158,391
Investments at fair value:		
Money market and mutual funds	16,668,180	-
U.S. government agency notes and debentures	12,156,986	-
Partnerships:		
Global bond fund	9,651,835	-
Real estate	7,740,760	-
High-yield bonds	5,413,065	-
Corporate and other bonds	52,208,374	-
Bond index fund	17,695,993	-
Equities	409,034,590	-
Private equities	9,772,489	-
Real estate	9,300,633	-
High-yield bonds	19,874,171	-
Foreign bonds and notes	326,039	-
Foreign equity mutual fund	4,786,535	-
U.S. government mortgage-backed securities	46,969,938	-
Commercial mortgage pools	7,170,210	-
Collateralized mortgage obligations	571,291	-
Asset-backed securities	6,258,140	-
Short-term investments	8,886,479	-
Other fixed income	33,190,396	-
Accrued interest and dividends receivable	1,627,954	-
Contributions receivable	5,420,094	-
Accounts receivable:		
Due from City of Pontiac Police and Fire Retiree VEBA	86,698	-
Due from City of Pontiac General Employees' Retirement System	2,670	-
Due from General Employees' Retirement System VEBA	2,955	-
Other receivables	-	527,598
Total assets	684,909,788	\$ 1,685,989
Liabilities		
Due to City of Pontiac	778,141	\$ -
Due to General Employees' Retirement System	2,955	-
Due to City of Pontiac Police and Fire Retirement System	86,698	-
Accounts payable	750,658	257,026
Accrued liabilities	-	190,031
Due to other governments	-	1,152,572
Deposits	-	86,360
Total liabilities	1,618,452	\$ 1,685,989
Net position held in trust for		
Pension benefits	650,467,300	
Other postemployment benefits	32,824,036	
Total net position	\$ 683,291,336	

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

CITY OF PONTIAC, MICHIGAN

Statement of Changes in Fiduciary Net Position Pension and Other Postemployment Benefit Trust Funds For the Year Ended December 31, 2012

Additions

Investment income:

Interest and dividend income	\$ 15,038,365
Net increase in fair value	68,455,748
Less investment advisor fees	<u>(3,546,674)</u>

Net investment income 79,947,439

Contributions:

Employer	11,188,129
Employees	<u>404,173</u>

Total contributions 11,592,302

Miscellaneous and litigation revenue 114,818

Total additions 91,654,559

Deductions

Retirees' pension benefits and retirement incentives	40,684,654
Retiree health benefit payments	7,740,149
Member refunds and withdrawals	430,850
Other expenses	572,625
Charges from the City - administrative expenses	<u>263,771</u>

Total deductions 49,692,049

Change in net position 41,962,510

Net position, beginning of year 641,328,826

Net position, end of year \$ 683,291,336

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

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2013

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets					
Cash and investments	\$ 481,168	\$ -	\$ 511	\$ 220,674	\$ 702,353
Receivables, net	3,866	-	-	-	3,866
Capital assets being depreciated - net	5,274,659	-	-	-	5,274,659
Total assets	5,759,693	-	511	220,674	5,980,878
Liabilities					
Accounts payable and accrued liabilities	476,833	-	511	200,566	677,910
Long-term liabilities:					
Due within one year	1,307,529	-	-	-	1,307,529
Due in more than one year	25,332,439	-	-	-	25,332,439
Total liabilities	27,116,801	-	511	200,566	27,317,878
Net position					
Unrestricted (deficit)	\$ (21,357,108)	\$ -	\$ -	\$ 20,108	\$ (21,337,000)

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

CITY OF PONTIAC, MICHIGAN

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

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Expenses					
Commercial and industrial development	\$ 272,469	\$ 672,055	\$ 7,363,660	\$ -	\$ 8,308,184
Interest on long-term debt	2,442,685	-	-	-	2,442,685
Total expenses	2,715,154	672,055	7,363,660	-	10,750,869
General revenues					
Property taxes	1,605,881	(37,120)	-	20,108	1,588,869
Unrestricted investment earnings	26,593	-	3,459	-	30,052
Other general revenues	721,457	881,875	126,238	-	1,729,570
Contributions from primary government	19,700,563	-	-	-	19,700,563
Total general revenues	22,054,494	844,755	129,697	20,108	23,049,054
Change in net position	19,339,340	172,700	(7,233,963)	20,108	12,298,185
Net position (deficit), beginning of year	(40,696,448)	(172,700)	7,233,963	-	(33,635,185)
Net position (deficit), end of year	\$ (21,357,108)	\$ -	\$ -	\$ 20,108	\$ (21,337,000)

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

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NOTES TO FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF 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 Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

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. A third EFM was appointed on September 12, 2011. On August 19, 2013, the Emergency Manager appointed a City Administrator to manage the day-to-day operations of the City (Order S-332), issued a final order (Order S-334), and submitted his resignation to the governor who appointed a Transition Advisory Board in accordance with Public Act 436 of 2012 to monitor the operations of the City. The City only directly manages and staffs treasury and city clerk operations as all other major functions and responsibilities of the City have been subcontracted with other government agencies or private service providers. 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).

Discretely Presented Component Units

The Downtown Development Authority (DDA) was dissolved by the Emergency Manager effective July 1, 2012. The activity in the financial statements represents final disposition of all remaining assets for the Authority.

The Economic Development Corporation (EDC) was dissolved by the Emergency Manager effective July 1, 2012. The activity in the financial statements represents final disposition of all remaining assets for the Corporation.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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 position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these 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.

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.

CITY OF PONTIAC, MICHIGAN

Notes to 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.

Fund Financial Statements

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: taxes, state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, some federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with an “unavailable revenue” deferred inflows of resources.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

Major streets special revenue fund. The major street fund receives allocations of State collected gasoline taxes and license fees to be used for the maintenance, repair and construction of streets and bridges within the City.

Sanitation special revenue fund. Under authority of State law, the City levies a special property tax levy earmarked to support the cost of operating a weekly rubbish collection and disposal service. This fund accounts for the tax levy proceeds, household rubbish fees and composting fees. It also records the expenditures for rubbish collection, hauling and disposal, recycling, composting and trash cleanup.

ML King construction capital projects fund. The ML King construction fund is used to account for the proceeds of a federal grant and contributions from other city funds used for the reconstruction of part of ML King Boulevard.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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.

Golf course fund. The City has a management agreement with a third party to run the operations of the golf course. The fund is used to account for the annual management fee revenue and any golf course related expenses.

Additionally, the City reports the following fund types:

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.

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 or 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.

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.

All funds are shown for the year ended June 30, 2013, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2012.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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 position is 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 2012 tax is levied and collectible on July 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The 2012 taxable valuation of the City of Pontiac totaled approximately \$763 million (a portion of which is abated and a portion of which is captured by the TIFA 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 .0542 mills for court judgments. This resulted in \$7.74 million for operating, \$1.94 million for refuse collection and disposal, \$0.97 million for capital improvement, \$0.34 million for senior activities, and \$0.04 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

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.

Prepaid items

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 City has 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.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

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

Compensated Absences

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting, that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Emergency Manager. An executive order by the Emergency Manager is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

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

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.

3. FUND DEFICITS

The City has accumulated unassigned fund deficits in the following individual funds:

ML King construction capital projects fund	\$	524,050
Clinton River Linear Park Trail nonmajor governmental fund		304,839

ML King Construction Fund - The deficit within the ML King Construction Fund (MLK) 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 the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. The City's deficit and unavailable revenue at June 30, 2013 is \$524,050.

Clinton River Linear Park Trail Fund - The deficit within the Clinton River Linear Park Trail 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 the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. The City's deficit and unavailable revenue at June 30, 2013 is \$304,839.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposits and investment balances for the primary government and the component units of as June 30, 2013:

	Primary Government	Component Units	Total
Statement of net position			
Cash	\$ 19,083,389	\$ 702,353	\$ 19,785,742
Restricted assets	2,497,714	-	2,497,714
Less - deposit held by State (see note 9)	(1,092,351)	-	(1,092,351)
Statement of fiduciary net position			
Cash	1,251,704	-	1,251,704
Investments	677,676,104	-	677,676,104
Total	\$ 699,416,560	\$ 702,353	\$ 700,118,913
Bank deposits (demand accounts and certificates of deposit)			\$ 22,342,196
Investments in securities, mutual funds and similar vehicles:			
General Employees' Retirement System			422,954,981
Police and Fire Retirement System			224,364,308
General Employees' Retirement System VEBA			306,318
Police and Fire Retirement System VEBA			30,143,810
Cash on hand			7,300
			<u>\$ 700,118,913</u>

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The City has designated eight 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.

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, 2012 because these funds are maintained on a calendar year basis.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

City - State law does not require and the City does not have a deposit policy for custodial credit risk. At year end, the City had \$22,342,196 of bank deposits (certificates of deposit, checking, and savings accounts). \$22,154,048 of the City's bank balance of \$23,234,441 was exposed to custodial credit risk because it was 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.

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.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

City - The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2013, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 City did not have any investments subject to interest rate risk.

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
U.S. governmental investments:		
Government agencies	\$ 3,870,214	2.64 years
Government mortgage-backed securities	17,909,534	1.07 years
Bond index fund	17,965,993	4.67 years
Corporate and other bonds	20,093,458	4.04 years

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
Asset-backed securities	\$ 5,701,832	1.77 years
Commercial mortgage-backed securities	7,170,210	3.09 years
Corporate and other bonds	49,051,812	4.61 years
Corporate and other bonds	721,000	Unavailable
U.S. governmental investments:		
Government bonds	3,060,255	11.56 years
Government issued commercial mortgage backed	938,050	3.08 years
Government mortgage-backed securities	24,557,617	0.99 years
Other government agencies	2,105,378	5.18 years
Nongovernment-backed CMOs	203,269	1.29 years
Nongovernment-backed CMOs	538,219	Unavailable
Municipal/Provincial bonds	1,670,445	7.72 years
Municipal/Provincial bonds	390,086	Unavailable
Short-term investment funds	17,095,992	Unavailable
Short-term bills and notes	1,938,734	0.19 years

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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
Corporate:		
Asset-backed	\$ 556,308	6.81 years
Bonds	2,216,276	5.83 years
Collateralized mortgage obligations	490,932	30.11 years
Foreign bonds	326,039	7.29 years
U.S. government:		
Agency	74,465	6.78 years
Collateralized mortgage obligations	80,359	8.82 years
Mortgage-backed	3,564,737	28.29 years
Treasuries, notes and bonds	986,143	1.33 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
Mutual fund - bond	\$ 117,320	7.1 years

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

City - The City has no investment policy that would further limit its investment choices. As of year end, the City did not have investments subject to credit risk.

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 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	Rating Organization
Bond index fund	\$ 17,695,993	Unrated	n/a
Corporate bonds	2,055,991	AA	S&P
Corporate bonds	14,727,230	A	S&P
Corporate bonds	3,310,236	Bbb	S&P
Short-term investment funds	8,293,941	Unrated	n/a
Government agencies	3,870,214	AA	S&P

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 highgrade 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	Rating Organization
Asset-backed securities	\$ 2,601,413	Aaa	Moody's
Asset-backed securities	856,885	Aa	Moody's
Asset-backed securities	984,997	A	Moody's
Asset-backed securities	1,258,537	Unrated	n/a
Commercial mortgage-backed securities	6,767,055	Aaa	Moody's
Commercial mortgage-backed securities	194,753	Aa	Moody's
Commercial mortgage-backed securities	208,402	Unrated	n/a
Corporate bonds	254,347	Aaa	Moody's
Corporate bonds	2,057,829	Aa	Moody's
Corporate bonds	11,157,568	A	Moody's
Corporate bonds	16,474,815	Baa	Moody's
Corporate bonds	460,688	Ba	Moody's
Corporate bonds	11,149,940	B	Moody's
Corporate bonds	7,419,281	Caa	Moody's
Corporate bonds	798,344	Unrated	n/a
Governmental agencies	1,287,933	Aaa	Moody's
Governmental agencies	817,446	Aa	Moody's
U.S. governmental agency mortgage-backed security	53,080	Unrated	n/a
Nongovernment-backed CMOs	20,122	A	Moody's
Nongovernment-backed CMOs	721,366	Unrated	n/a
Municipal/Provincial bonds	126,387	Aaa	Moody's
Municipal/Provincial bonds	1,544,058	Aa	Moody's
Municipal/Provincial bonds	390,086	Unrated	n/a
Short-term investment funds	17,095,992	Unrated	n/a

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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	Rating Organization
Corporate:			
Asset-backed	\$ 209,360	AAA	S&P
Asset-backed	109,827	AA	S&P
Asset-backed	140,032	A	S&P
Asset-backed	22,513	BBB	S&P
Asset-backed	74,576	Not rated	n/a
Bonds	752,367	A	S&P
Bonds	1,359,646	BBB	S&P
Bonds	104,263	BB	S&P
Collateralized mortgage obligations	102,953	AA	S&P
Collateralized mortgage obligations	82,631	A	S&P
Collateralized mortgage obligations	120,419	BBB	S&P
Collateralized mortgage obligations	184,930	Not rated	n/a
Foreign bonds	66,323	AA	S&P
Foreign bonds	149,022	A	S&P
Foreign bonds	110,695	BBB	S&P
U.S. government:			
Agency	74,465	A	S&P
Collateralized mortgage obligations	80,359	Not rated	n/a
Mortgage-backed securities	3,564,737	Not rated	n/a
Treasuries, notes and bonds	968,143	Not rated	n/a

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 - bond	\$ 4,575	AAA	Moody's
Mutual fund - bond	5,162	Aa	Moody's
Mutual fund - bond	13,492	A	Moody's
Mutual fund - bond	13,140	Baa	Moody's
Mutual fund - bond	80,951	n/a *	n/a *

* Explicitly guaranteed by the U.S. government therefore credit risk is n/a

Concentration of Credit Risk

City - The City places no limit on the amount it may invest in any one issuer. At year end, there were no individual investments with a fair value that represent 5% or more of the City's investments.

Police and Fire Retirement System - At year end, there were no individual investments with a fair value that represent 5% or more of the System's investments.

General Employees' Retirement System - At year end, there were no individual investments with a fair value that represent 5% or more of the System's investments.

Police and Fire Retirement System VEBA - At year end, there were no individual investments with a fair value that represent 5% or more of the System's investments.

General City Employees' Retirement System VEBA - At year end, there were no individual investments with a fair value that represent 5% or more of the System's investments.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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	\$ 2,285,950
Japanese yen	559,532
British pound	856,036
Latin American peso	229,552
Other	526,056

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

5. RECEIVABLES

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:

	Governmental Activities	Business-type Activities
Taxes	\$ 5,488,488	\$ -
Accounts	916,146	45,785
Intergovernmental	3,481,061	-
Less allowance for doubtful accounts	<u>(3,075,557)</u>	<u>-</u>
Net receivables	<u>\$ 6,810,138</u>	<u>\$ 45,785</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Other governmental				
Capital assets not being depreciated:				
Land	\$ 21,227,396	\$ -	\$ (424,757)	\$ 20,802,639
Construction in progress	32,514,906	4,376,638	(10,308,882)	26,582,662
Total capital assets not being depreciated	53,742,302	4,376,638	(10,733,639)	47,385,301
Capital assets being depreciated:				
Streets and bridges	62,273,065	10,695,979	-	72,969,044
Buildings and improvements	46,219,901	187,717	(48,604)	46,359,014
Machinery and equipment	14,455,051	178,557	(8,521,081)	6,112,527
Vehicles	11,148,352	714,738	(11,148,352)	714,738
Office furnishings	8,385,145	46,350	(1,761,996)	6,669,499
Land improvements	7,230,424	-	-	7,230,424
Total capital assets being depreciated	149,711,938	11,823,341	(21,480,033)	140,055,246
Less accumulated depreciation for:				
Streets and bridges	(27,237,003)	(3,256,823)	-	(30,493,826)
Buildings and improvements	(30,276,294)	(1,077,087)	15,637	(31,337,744)
Machinery and equipment	(14,089,172)	(66,571)	8,448,996	(5,706,747)
Vehicles	(11,148,352)	(421,916)	11,148,352	(421,916)
Office furnishings	(8,072,374)	(80,316)	1,761,996	(6,390,694)
Land improvements	(7,156,438)	(42,165)	-	(7,198,603)
Total accumulated depreciation	(97,979,633)	(4,944,878)	21,374,981	(81,549,530)
Total capital assets being depreciated, net	51,732,305	6,878,463	(105,052)	58,505,716
Other governmental capital assets, net	\$ 105,474,607	\$ 11,255,101	\$ (10,838,691)	\$ 105,891,017

Additions to assets and accumulated depreciation above, include amounts of \$714,738 and \$421,916, respectively, from assets transferred from the equipment revolving internal service fund.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Internal service funds				
Capital assets being depreciated:				
Buildings and improvements	\$ 52,998	\$ -	\$ (52,998)	\$ -
Machinery and equipment	1,707,851	-	(1,707,851)	-
Vehicles	4,169,766	-	(4,169,766)	-
Office furnishings	10,618	-	(10,618)	-
Total capital assets being depreciated	<u>5,941,233</u>	<u>-</u>	<u>(5,941,233)</u>	<u>-</u>
Less accumulated depreciation for:				
Buildings and improvements	(45,925)	(1,463)	47,388	-
Machinery and equipment	(1,446,768)	(62,738)	1,509,506	-
Vehicles	(2,112,742)	(365,737)	2,478,479	-
Office furnishings	(10,617)	-	10,617	-
Total accumulated depreciation	<u>(3,616,052)</u>	<u>(429,938)</u>	<u>4,045,990</u>	<u>-</u>
Total capital assets being depreciated, net	<u>2,325,181</u>	<u>(429,938)</u>	<u>(1,895,243)</u>	<u>-</u>
Internal service fund capital assets, net	<u>\$ 2,325,181</u>	<u>\$ (429,938)</u>	<u>\$ (1,895,243)</u>	<u>\$ -</u>
Governmental activities				
capital assets, net	<u>\$ 107,799,788</u>	<u>\$ 10,825,163</u>	<u>\$ (12,733,934)</u>	<u>\$ 105,891,017</u>
Business-type activities				
Water fund				
Capital assets not being depreciated:				
Land	\$ 195,436	\$ -	\$ (195,436)	\$ -
Construction in progress	2,712,275	-	(2,712,275)	-
Total capital assets not being depreciated	<u>2,907,711</u>	<u>-</u>	<u>(2,907,711)</u>	<u>-</u>
Capital assets being depreciated:				
Water systems	23,082,568	-	(23,082,568)	-
Buildings and improvements	2,929,104	-	(2,929,104)	-
Machinery and equipment	8,471,852	-	(8,471,852)	-
Vehicles	1,663,838	-	(1,663,838)	-
Land improvements	324,392	-	(324,392)	-
Total capital assets being depreciated	<u>36,471,754</u>	<u>-</u>	<u>(36,471,754)</u>	<u>-</u>
Less accumulated depreciation for:				
Water systems	(11,708,806)	(83,963)	11,792,769	-
Buildings and improvements	(1,767,236)	(8,359)	1,775,595	-
Machinery and equipment	(5,570,623)	(70,564)	5,641,187	-
Vehicles	(1,663,838)	-	1,663,838	-
Land improvements	(271,599)	(3,383)	274,982	-
Total accumulated depreciation	<u>(20,982,102)</u>	<u>(166,269)</u>	<u>21,148,371</u>	<u>-</u>
Total capital assets being depreciated, net	<u>15,489,652</u>	<u>(166,269)</u>	<u>(15,323,383)</u>	<u>-</u>
Water fund capital assets, net	<u>\$ 18,397,363</u>	<u>\$ (166,269)</u>	<u>\$ (18,231,094)</u>	<u>\$ -</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Sewer fund				
Capital assets not being depreciated:				
Land	\$ 325,964	\$ -	\$ (325,964)	\$ -
Construction in progress	15,024,642	-	(15,024,642)	-
Total capital assets not being depreciated	15,350,606	-	(15,350,606)	-
Capital assets being depreciated:				
Sewer systems	51,640,721	-	(51,640,721)	-
Buildings and improvements	11,708,563	-	(11,708,563)	-
Machinery and equipment	6,270,148	-	(6,270,148)	-
Vehicles	1,890,190	-	(1,890,190)	-
Land improvements	241,302	-	(241,302)	-
Total capital assets being depreciated	71,750,924	-	(71,750,924)	-
Less accumulated depreciation for:				
Sewer systems	(37,268,524)	(195,699)	37,464,223	-
Buildings and improvements	(9,323,670)	(24,254)	9,347,924	-
Machinery and equipment	(5,870,224)	(10,931)	5,881,155	-
Vehicles	(1,746,508)	(5,321)	1,751,829	-
Land improvements	(163,519)	(2,204)	165,723	-
Total accumulated depreciation	(54,372,445)	(238,409)	54,610,854	-
Total capital assets being depreciated, net	17,378,479	(238,409)	(17,140,070)	-
Sewer fund capital assets, net	\$ 32,729,085	\$ (238,409)	\$ (32,490,676)	\$ -
Parking fund				
Capital assets not being depreciated -				
Land	\$ 3,166,454	\$ -	\$ -	\$ 3,166,454
Capital assets being depreciated:				
Buildings and improvements	34,298,064	-	-	34,298,064
Machinery and equipment	78,976	-	-	78,976
Vehicles	14,014	-	-	14,014
Land improvements	646,676	-	-	646,676
Traffic signs	57,858	-	-	57,858
Total capital assets being depreciated	35,095,588	-	-	35,095,588
Less accumulated depreciation for:				
Buildings and improvements	(24,188,504)	(533,578)	-	(24,722,082)
Machinery and equipment	(76,755)	(1,388)	-	(78,143)
Vehicles	(14,012)	-	-	(14,012)
Land improvements	(646,676)	-	-	(646,676)
Traffic signs	(57,858)	-	-	(57,858)
Total accumulated depreciation	(24,983,805)	(534,966)	-	(25,518,771)
Total capital assets being depreciated, net	10,111,783	(534,966)	-	9,576,817
Parking fund capital assets, net	\$ 13,278,237	\$ (534,966)	\$ -	\$ 12,743,271

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Golf course fund				
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
Total capital assets being depreciated	5,879,885	-	-	5,879,885
Less accumulated depreciation for:				
Buildings and improvements	(631,133)	-	-	(631,133)
Machinery and equipment	(390,905)	-	-	(390,905)
Land improvements	(3,304,997)	-	-	(3,304,997)
Total accumulated depreciation	(4,327,035)	-	-	(4,327,035)
Total capital assets being depreciated, net	1,552,850	-	-	1,552,850
Golf course fund capital assets, net	\$ 2,286,610	\$ -	\$ -	\$ 2,286,610
Business-type activities capital assets, net	\$ 66,691,295	\$ (939,644)	\$ (50,721,770)	\$ 15,029,881
Depreciation expense is not taken on the golf course fund capital assets due to accounting requirements under service concession arrangements.				
Component Unit - Economic Development Corporation				
Capital assets being depreciated -				
Buildings and improvements	\$ 7,004,644	\$ -	\$ (7,004,644)	\$ -
Less accumulated depreciation -				
Buildings and improvements	(1,050,696)	-	1,050,696	-
Net capital assets	\$ 5,953,948	\$ -	\$ (5,953,948)	\$ -
Component Unit - Tax Increment Finance Authority				
Capital assets being depreciated -				
Buildings and improvements	\$ 5,702,333	\$ -	\$ -	\$ 5,702,333
Less accumulated depreciation -				
Buildings and improvements	(142,558)	(285,116)	-	(427,674)
Net capital assets	\$ 5,559,775	\$ (285,116)	\$ -	\$ 5,274,659

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit -				
Downtown Development Authority				
Capital assets being depreciated -				
Buildings and improvements	\$ 618,536	\$ -	\$ (618,536)	\$ -
Less accumulated depreciation -				
Buildings and improvements	(618,536)	-	618,536	-
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Component unit capital assets, net	<u>\$ 11,513,723</u>	<u>\$ (285,116)</u>	<u>\$ (5,953,948)</u>	<u>\$ 5,274,659</u>

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

Depreciation of governmental activities by function	
General government	\$ 1,188,206
Public safety	18,448
Public works	3,316,308
Internal service funds	429,938
Total depreciation expense - governmental activities	<u>\$ 4,952,900</u>
Depreciation of business-type activities by function	
Water	\$ 166,269
Sewer	238,409
Parking	534,966
Total depreciation expense - business-type activities	<u>\$ 939,644</u>

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

	Spent to Date	Remaining Commitment
Governmental activities:		
Cesar Chavez	\$ 108,596	\$ 2,510
Martin Luther King road improvements (construction phase)	921,494	13,375
Total governmental activities	<u>\$ 1,030,090</u>	<u>\$ 15,885</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2013, amounts due to/due from other funds were as follows:

	Due to Other Funds	Due from Other Funds
Major streets	\$ -	\$ 898,278
ML King construction	793,439	-
Nonmajor governmental funds	304,839	200,000
	<u>\$ 1,098,278</u>	<u>\$ 1,098,278</u>

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

For the year ended June 30, 2013, interfund transfers consisted of the following:

	Transfers in	Transfers out
General fund	\$ 51,212,480	\$ 2,287,345
Major streets	515,800	434,907
ML King construction	-	507,150
Nonmajor governmental funds	2,695,906	1,437,684
Water fund	-	1,989,911
Sewer fund	-	48,224,159
Parking fund	28,611	-
Internal service funds	1,098,035	669,676
	<u>\$ 55,550,832</u>	<u>\$ 55,550,832</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The large transfers from the water and sewer enterprise funds to the general fund are a result of the agreement entered into by the City with Oakland County. See Note 22 for further detail.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

8. 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. 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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds:					
\$21,490,000 2006 Fiscal Stabilization Bonds, due in annual installments of \$1,130,000 to \$2,050,000 through the year 2021; interest at 3.7% to 5.0%; paid in full during fiscal year 2013	\$ 15,350,000	\$ -	\$ (15,350,000)	\$ -	\$ -
Capital lease obligations - Internal service fund	1,777,044	-	(1,777,044)	-	-
Subtotal	17,127,044	-	(17,127,044)	-	-
Unamortized bond premium	601,143	-	(601,143)	-	-
Other long-term obligations:					
2011 General Motors and Motors Liquidation Company tax appeal settlement	896,277	-	(896,277)	-	-
2012 Crown Enterprise tax appeal settlement	10,596	-	(2,649)	7,947	2,649
Compensated absences, separation and longevity accrual	335,067	212,736	-	547,803	115,000
Landfill closure and postclosure costs	2,217,477	-	(379,065)	1,838,412	-
Total governmental activities	\$ 21,187,604	\$ 212,736	\$ (19,006,178)	\$ 2,394,162	\$ 117,649
Business-type activities					
Revenue bonds:					
\$3,675,000 1995 Water Supply System, due in annual installments of \$70,000 to \$300,000 through the year 2015; interest at 5.40% to 8.25%	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ -

continued...

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities (cont.)					
Revenue bonds (cont.):					
\$1,375,000 2002 Water Supply System, due in annual installments of \$45,000 to \$105,000 through the year 2022; interest at 5.0% to 5.8%	840,000	-	(840,000)	-	-
\$1,375,000 2010 Water Supply System - DWRP Project 7307-01, due in annual installments of \$80,000 to \$130,000 through the year 2031; interest at 2.50%	1,470,889	-	(1,470,889)	-	-
\$5,000,000 2002 Sewage Disposal System, due in annual installments of \$165,000 to \$385,000 through the year 2022; interest at 54.75% to 5.85%	3,060,000	-	(3,060,000)	-	-
\$9,695,000 2010 Sewage Disposal System - SRF Project 5408-01, due in annual installments of \$380,000 to \$605,000 through the year 2031; interest at 2.50%	8,296,910	-	(8,296,910)	-	-
\$495,000 2011 Sewage Disposal System - SRF Project 5408-02, due in annual installments of \$20,000 to \$30,000 through the year 2032; interest at 2.50%	72,431	-	(72,431)	-	-
\$9,695,000 2011 Sewage Disposal System - SRF Project 5408-03, due in annual installments of \$360,000 to \$580,000 through the year 2032; interest at 2.50%	985,409	-	(985,409)	-	-
\$1,060,000 2011 Sewage Disposal System - SRF Project 3018-01, due in annual installments of \$40,000 to \$65,000 through the year 2032; interest at 2.50%	129,825	-	(129,825)	-	-
Total business-type activities	\$ 15,710,464	\$ -	\$ (15,710,464)	\$ -	\$ -

concluded.

All business-type activity debt was paid in full during fiscal year 2013, except for the SRF and DWRP debt, which was transferred to Oakland County. See Note 22.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component units					
Revenue bonds:					
\$11,245,000 2002 TIFA Bonds #M0005, due in annual installments of \$215,000 to \$1,180,000 through the year 2022; interest at 3.000% to 5.625%; paid in full during fiscal year 2013	\$ 2,310,000	\$ -	\$ (2,310,000)	\$ -	\$ -
\$31,080,000 2007 C TIFA Bonds, due in annual installments of \$590,000 to \$1,985,000 through the year 2031; interest at 3.50% to 5.00%	28,310,000	-	(1,080,000)	27,230,000	1,130,000
General obligation bonds:					
\$8,160,000 2006 County Building Authority Refunding Bonds, due in annual installments of \$50,000 to \$2,850,000 through the year 2027; interest at 3.25% to 5.00%; paid in full during fiscal year 2013	7,760,000	-	(7,760,000)	-	-
\$11,500,000 2006 County Building Authority Bonds, due in annual installments of \$350,000 to \$900,000 through the year 2026; interest at 5.00% to 5.40%; paid in full during fiscal year 2013	9,150,000	-	(9,150,000)	-	-
Subtotal	47,530,000	-	(20,300,000)	27,230,000	1,130,000
Other long-term obligations:					
2011 General Motors and Motors Liquidation Company tax appeal settlement	1,047,710	-	(1,047,710)	-	-
2012 Crown Enterprise tax appeal settlement	236,706	-	(59,177)	177,529	177,529
Compensated absences	22,647	-	(22,647)	-	-
Unamortized bond discounts	(1,062,896)	-	295,335	(767,561)	-
Total component units	\$ 47,774,167	\$ -	\$ (21,134,199)	\$ 26,639,968	\$ 1,307,529

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

Year Ending June 30	Component Units	
	Principal	Interest
2014	\$ 1,130,000	\$ 1,206,750
2015	1,175,000	1,167,200
2016	1,210,000	1,126,074
2017	1,260,000	1,082,214
2018	1,305,000	1,034,962
2019-2023	8,085,000	4,281,722
2024-2028	8,175,000	2,242,064
2029-3031	4,890,000	443,476
	<u>\$ 27,230,000</u>	<u>\$ 12,584,462</u>

Compensated absences and separation accruals in governmental activities of \$547,803 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 \$1,838,412 has no fixed maturity dates; therefore, it has 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 special revenue funds. Lease payments are made directly from the fund incurring the expenditure. The compensated absences liability attributable to the governmental activities is recorded in the employee sick and vacation internal service fund. The landfill closure and postclosure costs represent the cumulative amount of closure and postclosure are costs reported to date based on the use of 100 percent of the estimated capacity of the landfill.

Deceased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in these financial statements. As of June 30, 2013, \$20,460,000 of bonds outstanding are considered defeased.

Future Revenue Pledged for Debt Payment

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 TIFA2 and TIFA 3 revenue bonds. Proceeds of the bonds provided financing for the Marriott Hotel construction and land improvements on the former Clinton Valley Center property. The bonds are paid solely from TIFA 2 and TIFA 3 captured taxes. The remaining principal and interest to be paid on the TIFA 2 and TIFA 3 bonds are \$4,801,281 and \$35,013,181, respectively. During the current year, TIFA 2 and TIFA 3 captured property tax revenue totaling \$190,583 and \$1,510,551, respectively, compared to annual debt requirements of \$2,225,456 and \$1,767,081, respectively.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

9. 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	\$ 1,405,363	\$ -	\$ 1,405,363	\$ -
Deposits held by State for landfill postclosure care	1,092,351	-	1,092,351	-
Total restricted assets	<u>\$ 2,497,714</u>	<u>\$ -</u>	<u>\$ 2,497,714</u>	<u>\$ -</u>

10. 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 \$1,838,412 reported as landfill closure and postclosure liability at June 30, 2013 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, 2013. 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, 2013, investments of \$2,497,714 are held for these purposes. These are reported as restricted assets on the balance sheet. The total fund balance in the sanitation special revenue fund has been restricted as well. 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.

11. 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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. These liabilities are recorded in internal service funds. 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 the general liability. The total decrease in the general liability is \$600,000. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation	
	2013	2012	2013	2012
Unpaid claims -				
Beginning of year	\$ 2,800,000	\$ 2,329,930	\$ 1,500,000	\$ 2,416,876
Incurred claims	(89,502)	1,344,595	1,156,127	(54,549)
Claim payments	(510,498)	(874,525)	(731,127)	(862,327)
Unpaid claims -				
End of year	<u>\$ 2,200,000</u>	<u>\$ 2,800,000</u>	<u>\$ 1,925,000</u>	<u>\$ 1,500,000</u>

	Medical and Dental Claims	
	2013	2012
Unpaid claims -		
Beginning of year	\$ 592,000	\$ 1,070,000
Incurred claims	9,143,221	11,930,318
Claim payments	(9,260,221)	(12,408,318)
Unpaid claims -		
End of year	<u>\$ 475,000</u>	<u>\$ 592,000</u>

12. 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

Annual Pension Cost. The annual contribution for the year ended June 30, 2013 was \$0. The annual required contribution was determined as part of actuarial valuation at December 31, 2009, 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, 2011, all assumptions have remained consistent.

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2011	\$ -	100.0%	\$ -
2012	-	100.0%	-
2013	-	100.0%	-

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 383,349,729	\$ 249,739,988	\$ (133,609,741)	153.5%	\$ 3,968,743	0%

Reserves - As of December 31, 2012, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,520,912
Reserve for retired benefit payments	213,743,519

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

13. 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Partial Termination. During 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with Oakland County Sheriff for policing services. This resulted from the termination of active employee positions at the City under Executive Orders issued by the Emergency Manager. The actuarial valuation as of December 31, 2011 reflects the transfer of employees from active status to vested inactive status as a result of the partial termination. Likewise, a supplemental actuarial valuation was performed as of March 1, 2012 to reflect the change in status of the fire employees from active members to vested inactive members. As of March 1, 2012, the City contracted with Waterford Township to provide fire services. This valuation indicates that the actuarial accrued liabilities decreased by approximately \$2.54 million, resulting in a decrease in unfunded actuarial accrued liabilities from \$4.51 million to \$1.97 million.

Closing of Plan. As of March 1, 2012, plan membership has decreased to zero and the plan is deemed to be closed. As a result, the Retirement System's actuary is expressing the annual required contribution as a level dollar amount amortized on a closed basis rather than as a level percent of payroll. Upon the closing of the plan, the required employer contribution for the year beginning July 1, 2013 was recomputed from \$1,449,540 to \$901,797.

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.

Annual Pension Cost. The annual required contribution for the year ended June 30, 2013 was \$901,797. The annual required contribution was determined as part of actuarial valuations at March 1, 2012, 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. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 901,797
Interest on net pension obligation	129,787
Adjustment to annual required contribution	<u>(120,281)</u>
Net pension cost (expense)	911,303
Contributions made	<u>(2,176,862)</u>
Change in net pension obligation	(1,265,559)
Net pension obligation, beginning of year	<u>1,730,490</u>
Net pension obligation, end of year	<u><u>\$ 464,931</u></u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2011	\$ 887,134	49.0%	\$ 824,166
2012	906,324	0.0%	1,730,490
2013	911,303	238.9%	464,931

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/12	\$ 221,258,667	\$ 251,758,049	\$ 30,499,382	87.9%	\$ -	n/a

Reserves - As of December 31, 2012, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,795,844
Reserve for retired benefit payments	215,754,908

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

14. 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.

The City's total payroll during the current year was \$4,057,241. The current year contribution was calculated based on covered payroll of \$168,247, resulting in an employer contribution of \$8,827 and employee contributions of \$5,048.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

15. 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. Through the year ended December 30, 2009, the Trust was in the preliminary phases of accumulating assets to build a corpus; however, given the financial condition of the plan sponsor, in 2010 the System began using the assets held in trust to pay or otherwise make reimbursements to the City related to City payments for retiree healthcare 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.

Plan Changes. During the year ended December 31, 2012, an Executive Order modifying the terms of health care insurance for all retirees who are eligible and currently receiving these benefits was issued by the City's Emergency Manager, pursuant to the provisions of Public Act 152 of 2011 (PA 152). The Executive Order includes various plan changes, the most significant being that pre-age 65 retirees pay by deduction from their pension checks and the amount above the "hard-cap" (as defined by PA 152), or 20 percent of the annual rates, whichever is higher, effective July 1, 2012.

Funding Policy. The City is required by ordinance to contribute 3 percent of eligible payroll toward pre-funding unless an actuarial valuation requires a lesser amount. For the period from January 1, 2012 through December 31, 2012, the City has estimated the portion of healthcare costs paid by the City to be \$5,240,267, which is reflected as additional contributions to the plan and benefit payments made from the plan during the current year, pursuant to governmental accounting standards which require gross-up of qualified retiree healthcare payments made by the City, even though they were not remitted to and paid through the plan.

Funding Progress. For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 9,340,526
Interest on net OPEB obligation	1,520,838
Adjustment to annual required contribution	<u>(541,379)</u>
Net OPEB cost (expense)	10,319,985
Contributions made	<u>(3,295,699)</u>
Change in net OPEB obligation	7,024,286
Net OPEB obligation, beginning of year	<u>20,277,840</u>
Net OPEB obligation, end of year	<u><u>\$ 27,302,126</u></u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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:

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	12/31/2008	\$ 10,323,054	5.24%	\$ 15,976,841
2012	12/31/2009	9,951,704	56.78%	20,277,840
2013	12/31/2010	10,319,985	31.94%	27,302,126

The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/10	\$ 488,148	\$ 191,388,835	\$ 190,900,687	0.26%	\$ 9,493,229	2010.91%

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 supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are 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 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, 2010 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, 2010 was an open 30-year period.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

During 2011, a partial termination of the plan for general employees was deemed to have occurred. This resulted from the termination of various active employee positions at the City under Executive Orders issued by the Emergency Manager. The impact of membership composition and the funded status of the healthcare trust are unknown as this time; however, the Trust was abolished as of May 30, 2012. As the plan ceases to exist, the unfunded actuarial accrued liability will be reported at the plan sponsor level only going forward.

On May 30, 2012, the City's Emergency Manager signed an Executive Order to abolish the Trust with immediate effect. The Trust was not formally liquidated until April 30, 2013. As of April 30, 2013, the remaining assets held in Trust have been remitted to the plan sponsor for reimbursement of benefit payments made for covered members.

16. 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. 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.

Funding Policy. The City is required by declaration of trust and agreement, dated August 22, 1996, to contribute on a percentage of covered payroll which the trustees have deemed to be based on actuarial recommended amounts. The City has not yet made the minimum contribution to the Trust for the plan period ended December 31, 2012; however, contributions of \$3,243,232 were made subsequent to the Trust's year end pursuant to the terms of a settlement agreement between the Trust and the plan sponsor for prior plan years. Those contributions are recorded as a receivable and revenue as of December 31, 2012 in the Trust's financial statements. Contributions for 2012 are currently the subject of a separate lawsuit.

Funding Progress. For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of March 31, 2012. 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	\$ 4,031,162
Interest on net OPEB obligation	1,029,294
Adjustment to annual required contribution	<u>(366,402)</u>
Net OPEB cost (expense)	4,694,054
Contributions made	<u>(5,902,472)</u>
Change in net OPEB obligation	(1,208,418)
Net OPEB obligation, beginning of year	<u>13,723,926</u>
Net OPEB obligation, end of year	<u>\$ 12,515,508</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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:

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	12/31/2008	\$ 4,765,818	0.00%	\$ 9,228,858
2012	3/31/2012	4,495,069	0.00%	13,723,926
2013	3/31/2012	4,694,054	125.74%	12,515,508

The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
3/1/12	\$ 29,667,807	\$ 137,140,392	\$ 107,472,585	21.63%	\$ -	n/a

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 supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

In the March 1, 2012 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. The valuation also included a 10 percent medical car inflation rate assumption related to healthcare cost increases in the first year, decreasing in increments of 0.5 percent over the next 12 years to the ultimate 4 percent assumption. The actuarial value of assets is set to equal actuarial accrued value as of December 31, 2011. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at March 31, 2012 was 30 years.

During 2011, a partial termination of the Pension Plan for Police and Fire Employees was deemed to have occurred. This resulted from the termination of various active employee positions at the City under executive orders issued by the Emergency Manager.

In addition, effective March 1, 2012, the remaining fire employees ceased to be employees of the City. As such, the plan is effectively closed for active or new participants.

17. OTHER POSTEMPLOYMENT BENEFITS - CITY OF PONTIAC RETIREE HEALTH CARE PLAN

Plan Description. The City also provided 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.

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, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2012. 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 an unfunded actuarial accrued 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)	\$ 10,058,807
Interest on the prior year's net OPEB obligation	101,345
Adjustment to annual required contribution	<u>(35,936)</u>
Net OPEB cost (expense)	10,124,216
Contributions made	<u>(1,667,735)</u>
Change in net OPEB obligation	8,456,481
Net OPEB obligation, beginning of year	<u>2,026,895</u>
Net OPEB obligation, end of year	<u><u>\$ 10,483,376</u></u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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:

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	12/31/2009	\$ 3,627,333	100.18%	\$ 1,049,099
2012	12/31/2009	3,625,712	73.03%	2,026,895
2013	12/31/2012	10,124,216	16.47%	10,483,376

The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/12	\$ -	\$ 154,890,258	\$ 154,890,258	0.00%	\$ 1,070,651	14466.92%

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, 2012 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, 2012 was 30 years.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

18. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT FUNDS

	Plan Net Position				
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Assets					
Cash and cash equivalents	\$ 5,523	\$ 390	\$ -	\$ 87,400	\$ 93,313
Investments at fair value:					
Money market and mutual funds	16,361,862	-	306,318	-	16,668,180
U.S. government agency notes and debentures	7,226,164	3,870,214	-	1,060,608	12,156,986
Partnerships:					
Global bond fund	-	9,651,835	-	-	9,651,835
Real estate	-	7,740,760	-	-	7,740,760
High-yield	-	5,413,065	-	-	5,413,065
Corporate and other bonds	29,898,640	20,093,458	-	2,216,276	52,208,374
Bond index fund	-	17,695,993	-	-	17,695,993
Equities	269,636,036	124,290,963	-	15,107,591	409,034,590
Private equities	8,394,480	-	-	1,378,009	9,772,489
Real estate	-	9,300,633	-	-	9,300,633
High-yield bonds	19,874,171	-	-	-	19,874,171
Foreign bonds and notes	-	-	-	326,039	326,039
Foreign equity mutual fund	-	-	-	4,786,535	4,786,535
U.S. government mortgage-backed securities	25,495,667	17,909,534	-	3,564,737	46,969,938
Commercial mortgage pools	7,170,210	-	-	-	7,170,210
Collateralized mortgage obligations	-	-	-	571,291	571,291
Asset-backed securities	5,701,832	-	-	556,308	6,258,140
Short-term investments	-	8,397,463	-	489,016	8,886,479
Other fixed income	33,190,396	-	-	-	33,190,396
Accrued interest and dividends receivable	1,302,349	325,605	-	-	1,627,954
Contributions receivable	-	2,176,862	-	3,243,232	5,420,094
Accounts receivable:					
Due from Police and Fire VEBA	-	86,698	-	-	86,698
Due from Police and Fire Retirement System	2,670	-	-	-	2,670
Due from General Employees' Retirement System VEBA	2,955	-	-	-	2,955
Total assets	424,262,955	226,953,473	306,318	33,387,042	684,909,788

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CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Plan Net Position				
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Liabilities					
Due to City of Pontiac	-	-	-	778,141	778,141
Due to General Employees' Retirement System	-	-	2,955	-	2,955
Due to Police and Fire Retirement System	-	-	-	86,698	86,698
Accounts payable and other	734,166	14,962	1,530	-	750,658
Total liabilities	734,166	14,962	4,485	864,839	1,618,452
Net position held in trust for pension and other employee benefits	\$ 423,528,789	\$ 226,938,511	\$ 301,833	\$ 32,522,203	\$ 683,291,336

concluded.

	Changes in Plan Net Position				
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Additions					
Investment income:					
Interest and dividend income	\$ 10,657,334	\$ 3,687,538	\$ 2,634	\$ 690,859	\$ 15,038,365
Net increase in fair value	42,324,856	23,078,332	2,489	3,050,071	68,455,748
Less investment advisor fees	(2,780,366)	(687,212)	-	(79,096)	(3,546,674)
Net investment income	50,201,824	26,078,658	5,123	3,661,834	79,947,439
Contributions:					
Employer	-	2,176,867	5,768,030	3,243,232	11,188,129
Employee	-	44,842	-	359,331	404,173
Total contributions	-	2,221,709	5,768,030	3,602,563	11,592,302
Miscellaneous and litigation revenue	36,349	67,072	-	11,397	114,818
Total additions	50,238,173	28,367,439	5,773,153	7,275,794	91,654,559

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CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Changes in Plan Net Position				Total
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	
Deductions					
Retirees' pension benefits and retirement incentives	21,497,123	19,187,531	-	-	40,684,654
Retiree health benefit payments	-	-	5,768,030	1,972,119	7,740,149
Member refunds and withdrawals	-	430,850	-	-	430,850
Other expenses	511,854	-	9,303	51,468	572,625
Charges from the City - administrative expenses	-	263,771	-	-	263,771
Total deductions	22,008,977	19,882,152	5,777,333	2,023,587	49,692,049
Change in net position	28,229,196	8,485,287	(4,180)	5,252,207	41,962,510
Net position:					
Beginning of year	395,299,593	218,453,224	306,013	27,269,996	641,328,826
End of year	<u>\$ 423,528,789</u>	<u>\$ 226,938,511</u>	<u>\$ 301,833</u>	<u>\$ 32,522,203</u>	<u>\$ 683,291,336</u>

concluded.

19. 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.

20. 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:

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

- 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 \$15,000.

21. SUBSEQUENT EVENTS

Effective August 12, 2013, the City of Pontiac adopted new policies for ACH and electronic transactions, credit cards, investments and capital assets.

The City sold the Pontiac Municipal Golf Course on August 15, 2013 for \$700,000. The golf course service concession agreement, mentioned in the previous note, ended as a result of the sale.

On August 19, 2013, the Emergency Manager resigned. Before he resigned, the Emergency Manager appointed a City Administrator to manage the day-to-day operations of the City and issued a final order to the City Administrator, Mayor, and City Council (orders S-332 and S-334). Upon accepting the Emergency Manager's resignation, in accordance with Public Act 436 of 2012, the governor appointed a Transition Advisory Board to monitor the operations of the City.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Effective September 1, 2013, all OPEB obligations of the City have been suspended for a period of two years or the period of receivership, whichever is longer.

22. SPECIAL ITEMS

In August 2012, the City of Pontiac entered into a contractual agreement with Oakland County to acquire its sanitary sewage treatment plant, as well as transfer the ownership of its water and sewer lines.

Oakland County, through a newly created Chapter 20 drainage district, issued \$53,480,000 in General Obligation bonds (taxable) and \$4,055,000 in tax-exempt drain bonds in order to purchase the Pontiac wastewater treatment plant. The purchase price of the acquisition was \$55,000,000, which was transferred to the City of Pontiac to use in various ways including paying off existing Water Fund and Sewer Fund debt. The agreement required the City to place into escrow, \$5,000,000 of the proceeds for the County to fund a replacement reserve, of which the County solely controls and will use to update wastewater plant assets. Oakland County intends to operate the sewage treatment plant, through its Chapter 20 drainage district, and will likely add new local units as customers. Oakland County will operate the system, bill the end customers, pay all operating costs of the system, including its debt.

In addition, Oakland County, through Act 342, took ownership over the water transmission & distribution lines and the sanitary sewage collection lines of the City of Pontiac, in exchange for accepting all remaining debt of the City that was cross-collateralized by those water and sewer lines. Ownership of the water and sewer lines will remain with Oakland County and Oakland County will operate the system for a time period of 40 years or until all outstanding debt of the system is paid off, whichever is greater. At that point, the water and sewer lines will revert back to the City of Pontiac and the City will be responsible for operating the system.

The remaining net position of both the Water Fund and Sewer Fund after the adjustments for the sale of the sanitary sewage treatment plant and transfer of the water transmission & distribution lines and the sanitary sewage collection lines to Oakland County was transferred to the General Fund and both funds were closed in September 2012.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

23. DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

Fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, is as follows:

	General	Major Streets	Sanitation	ML King Construction	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Prepaid items	\$ 842,115	\$ -	\$ -	\$ -	\$ -	\$ 842,115
Restricted						
Roads	-	1,825,423	-	-	782,701	2,608,124
Drug enforcement	-	-	-	-	265,805	265,805
Capital projects	-	-	-	-	399,430	399,430
Landfill postclosure costs	-	-	2,590,851	-	-	2,590,851
Drains	-	-	-	-	589,801	589,801
Senior activities	-	-	-	-	1,072,465	1,072,465
Cable television	-	-	-	-	1,061,498	1,061,498
Total restricted	-	1,825,423	2,590,851	-	4,171,700	8,587,974
Unassigned (deficit)	32,968	-	-	(524,050)	(304,839)	(795,921)
Total fund balances (deficit)	\$ 875,083	\$ 1,825,423	\$ 2,590,851	\$ (524,050)	\$ 3,866,861	\$ 8,634,168



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
General Employees' Retirement System

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	\$ 409,983,491	\$ 266,557,429	\$ (143,426,062)	153.8%	\$ 14,996,753	0.0%
12/31/2007	433,028,186	257,940,349	(175,087,837)	167.9%	13,559,473	0.0%
12/31/2008	416,678,512	261,497,756	(155,180,756)	159.3%	14,414,841	0.0%
12/31/2009	405,193,572	255,720,207	(149,473,365)	158.5%	12,553,146	0.0%
12/31/2010	399,573,669	253,866,554	(145,707,115)	157.4%	9,493,229	0.0%
12/31/2011	383,349,729	249,739,988	(133,609,741)	153.5%	3,968,743	0.0%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2008	12/31/2005	\$ -	100.0%
2009	12/31/2006	-	100.0%
2010	12/31/2007	-	100.0%
2011	12/31/2008	-	100.0%
2012	12/31/2009	-	100.0%
2013	12/31/2010	-	100.0%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2011, the latest actuarial valuation, follows:

Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.6% to 9.4%
Cost of living adjustments	2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group

* Includes inflation at 4.5%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
Police and Fire Retirement System

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2007	\$ 271,992,032	\$ 235,981,324	\$ (36,010,708)	115.3%	\$ 11,066,828	0.0%
12/31/2008	265,251,339	238,217,676	(27,033,663)	111.3%	9,749,807	0.0%
12/31/2009	259,240,616	243,283,874	(15,956,742)	106.6%	7,405,796	0.0%
12/31/2010	253,878,331	244,915,039	(8,963,292)	103.7%	6,667,866	0.0%
12/31/2011	239,781,316	245,699,778	5,918,462	97.6%	3,141,128	188.4%
3/1/2012 *	239,781,316	248,335,145	8,553,829	96.6%	-	n/a
12/31/2012	221,258,667	251,758,049	30,499,382	87.9%	-	n/a

* March 1, 2012 valuation used the funding value of assets as of December 31, 2011. The December 31, 2012 valuation excludes contributions receivable of \$1,467,987.

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2008	12/31/2007	\$ 2,344,231	100.0%
2009	12/31/2008	1,829,115	100.0%
2010	12/31/2009	1,230,190	100.0%
2011	12/31/2010	887,134	100.0%
2012	3/31/2012	931,311	89.0%
2013	12/31/2012	901,797	241.4%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Investment rate of return *	7.5%
Cost of living adjustments	2.0%

* Includes inflation at 4.0%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
 General Employees' Retirement System VEBA

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2005	\$ 3,973,887	\$ 157,048,845	\$ 153,074,958	2.5%	\$ 16,751,815	913.8%
12/31/2006	4,928,700	154,823,626	149,894,926	3.2%	14,996,753	999.5%
12/31/2007	5,682,510	159,345,212	153,662,702	3.6%	13,559,473	1133.2%
12/31/2008	4,796,224	226,279,072	221,482,848	2.1%	14,414,481	1536.5%
12/31/2009	6,207,984	129,889,840	123,681,856	4.8%	12,553,146	985.3%
12/31/2010	488,148	191,388,835	190,900,687	0.3%	9,493,229	2010.9%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC) *	Amount Contributed **
2008	12/31/2005	\$ -	\$ 451,945
2009	12/31/2006	10,674,833	7,450,360
2010	12/31/2007	9,759,248	6,957,547
2011	12/31/2008	10,000,245	540,429
2012	12/31/2009	9,148,597	5,650,705
2013	12/31/2010	9,340,526	3,295,699

* 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 opposed to the Trust's calendar year.

** In accordance with GASB Statement No. 45, the amount contributed for 2011 and 2013 excludes premiums of \$6,841,607 and \$323,617, which were reimbursed to the City from the Trust.

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
Police and Fire Retirement System VEBA

Schedule of Funding Progress						
Actuarial Valuation Date *	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	\$ 25,534,993	\$ 79,788,465	\$ 54,253,472	32.0%	\$ 12,831,719	422.8%
12/31/2007	30,185,216	73,171,572	42,986,356	41.3%	11,066,828	388.4%
12/31/2008	31,405,001	113,221,193	81,816,192	27.7%	9,749,807	839.2%
12/31/2009	32,313,276	125,406,797	93,093,521	25.8%	7,405,796	1257.0%
12/31/2010	34,821,105	115,446,247	80,625,142	30.2%	6,667,866	1209.2%
3/1/2012 **	29,667,807	137,140,392	107,472,585	21.6%	-	n/a

* Beginning with the 12/31/08 valuation and thereafter, actuarial valuation information was derived from the actuary's 5 percent alternate return assumption.

** Outstanding contributions related to 2010 and 2011 that were not remitted by the plan sponsor were removed from the asset value in the 3/1/12 valuation.

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Amount Contributed *
2008	12/31/2005	\$ -	\$ 2,908,138
2009	12/31/2006	5,594,865	2,678,324
2010	12/31/2007	4,553,185	3,158,681
2011	12/31/2008	3,915,371	-
2012	12/31/2009	4,031,162	3,243,332 **

* 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 opposed to the plans' calendar year end.

** Amount shown as contributions during the year ended June 30, 2012 related to 2011, but were not received during the year. Contributions for 2012 are currently in litigation.

Amortization method	Level dollar, closed
Amortization period	30 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Alternate investment rate of return *	5.0%
Medical inflation rate, graded down in 0.5% increments over 12 years	10.0% - 4.0%

* Includes inflation at 4.0%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
 Retiree Health Care Plan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	\$ -	\$ 90,952,284	\$ 90,952,284	0.0%	\$ 29,840,682	304.8%
12/31/2009	-	73,645,892	73,645,892	0.0%	19,985,942	368.5%
12/31/2012	-	154,890,258	154,890,258	0.0%	1,070,651	14466.9%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2009	12/31/2006	\$ 4,380,928	83.3%
2010	12/31/2009	3,590,354	91.6%
2011	12/31/2009	3,590,354	101.2%
2012	12/31/2009	3,590,354	73.8%
2013	12/31/2012	10,058,807	-46.5%

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 15,525,981	\$ 16,007,526	\$ 16,263,520	\$ 255,994
Licenses and permits	2,460,700	2,363,400	2,348,281	(15,119)
State revenue	8,602,935	8,894,649	8,967,340	72,691
Contributions from local units	136,100	136,100	159,789	23,689
Charges for services	1,270,870	1,492,380	1,663,943	171,563
Interest and rents	-	29,300	29,919	619
Other	1,786,956	2,411,425	2,686,773	275,348
Total revenues	29,783,542	31,334,780	32,119,565	784,785
Expenditures				
General government:				
City council	15,909	32,124	26,598	(5,526)
Emergency Manager	354,906	356,540	356,738	198
Mayor	112,268	152,834	143,007	(9,827)
Information technology	524,419	506,860	506,829	(31)
Elections	159,027	159,931	157,123	(2,808)
Accounting	346,800	345,800	345,000	(800)
Income tax administration	290,016	295,426	275,971	(19,455)
Finance administration	580,601	591,214	580,241	(10,973)
Assessor	416,000	416,000	415,668	(332)
City attorney	638,591	682,991	592,017	(90,974)
City clerk	172,844	209,198	220,294	11,096
Personnel services	255,086	270,262	310,425	40,163
Treasurer	532,788	620,581	630,152	9,571
Building maintenance	426,517	633,736	623,520	(10,216)
Cemetery Oak Hill	-	600	1,245	645
Total general government	4,825,772	5,274,097	5,184,828	(89,269)
Public safety:				
Administrative services	11,134,392	11,644,886	11,492,696	(152,190)
Fire administration	6,500,940	6,735,505	6,746,892	11,387
Building and safety engineer	1,900,042	2,030,815	2,064,414	33,599
Crossing guards	63,945	17,000	14,495	(2,505)
Total public safety	19,599,319	20,428,206	20,318,497	(109,709)

continued...

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)				
Public works:				
Electrical shop	\$ 4,615	\$ 59,741	\$ 61,221	\$ 1,480
Operations	14,668	333,284	386,064	52,780
Engineering	22,754	57,391	80,068	22,677
Street lighting	983,557	1,035,557	1,019,324	(16,233)
Weed abatement	289,694	-	1,742	1,742
Total public works	<u>1,434,347</u>	<u>1,485,973</u>	<u>1,548,419</u>	<u>62,446</u>
Health and welfare -				
Tele-van services	<u>136,100</u>	<u>143,852</u>	<u>138,230</u>	<u>(5,622)</u>
Community development:				
Redevelopment and housing	142,393	182,537	184,279	1,742
Planning division	191,750	196,750	122,085	(74,665)
Transfer to Downtown Development Authority	-	96,000	-	(96,000)
Transfer to Tax Increment Finance Authority	12,414,112	19,750,704	19,700,563	(50,141)
Total community development	<u>12,748,255</u>	<u>20,225,991</u>	<u>20,006,927</u>	<u>(219,064)</u>
Recreation:				
Howard Dell Center	2,686	8,218	6,630	(1,588)
Ewalt Center/Galloway Park	2,220	2,220	2,220	-
Grounds maintenance	363,276	610,424	557,523	(52,901)
Recreation	121,461	26,005	19,536	(6,469)
Total recreation	<u>489,643</u>	<u>646,867</u>	<u>585,909</u>	<u>(60,958)</u>
Other:				
Unemployment compensation	200,000	94,000	72,681	(21,319)
Retiree fringe benefits	5,681,133	11,616,077	12,395,980	779,903
Total other	<u>5,881,133</u>	<u>11,710,077</u>	<u>12,468,661</u>	<u>758,584</u>
Debt service:				
Principal	16,100,506	15,350,000	15,350,000	-
Interest and other fiscal charges	1,142,552	1,142,552	1,142,552	-
Total debt service	<u>17,243,058</u>	<u>16,492,552</u>	<u>16,492,552</u>	<u>-</u>
Total expenditures	<u>62,357,627</u>	<u>76,407,615</u>	<u>76,744,023</u>	<u>336,408</u>
Revenue under expenditures	<u>(32,574,085)</u>	<u>(45,072,835)</u>	<u>(44,624,458)</u>	<u>448,377</u>

continued...

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 46,579,040	\$ 50,516,125	\$ 51,212,480	\$ 696,355
Transfers out	(1,017,696)	(2,017,696)	(2,287,345)	(269,649)
Total other financing sources	<u>45,561,344</u>	<u>48,498,429</u>	<u>48,925,135</u>	<u>426,706</u>
Net change in fund balance	12,987,259	3,425,594	4,300,677	875,083
Fund balance (deficit), beginning of year	<u>(3,425,594)</u>	<u>(3,425,594)</u>	<u>(3,425,594)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,561,665</u>	<u>\$ -</u>	<u>\$ 875,083</u>	<u>\$ 875,083</u>

concluded.

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Major Streets Special Revenue Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State sources	\$ 3,218,006	\$ 3,218,581	\$ 3,201,261	\$ (17,320)
Other	-	13,175	22,666	9,491
Total revenues	3,218,006	3,231,756	3,223,927	(7,829)
Expenditures				
Public works	2,728,121	2,545,914	2,019,765	(526,149)
Revenue over expenditures	489,885	685,842	1,204,162	518,320
Other financing sources (uses)				
Transfers in	-	-	515,800	515,800
Transfers out	(426,257)	(443,257)	(434,907)	8,350
Total other financing sources (uses)	(426,257)	(443,257)	80,893	524,150
Net changes in fund balances	63,628	242,585	1,285,055	1,042,470
Fund balances, beginning of year	540,368	540,368	540,368	-
Fund balances, end of year	\$ 603,996	\$ 782,953	\$ 1,825,423	\$ 1,042,470

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Sanitation Special Revenue Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 1,475,825	\$ 1,475,825	\$ 1,342,704	\$ (133,121)
Charges for services	3,344,463	3,363,553	3,295,344	(68,209)
Investment income	-	-	141	141
Other	-	-	1,454	1,454
Total revenues	4,820,288	4,839,378	4,639,643	(199,735)
Expenditures				
Public works	4,444,499	4,409,854	4,227,207	(182,647)
Net change in fund balance	375,789	429,524	412,436	(17,088)
Fund balance, beginning of year	2,178,415	2,178,415	2,178,415	-
Fund balance, end of year	\$ 2,554,204	\$ 2,607,939	\$ 2,590,851	\$ (17,088)

CITY OF PONTIAC, MICHIGAN

Note to Required Supplemental Information

1. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds.

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 and department. The legal level of budgetary control adopted by the Emergency Manager is the department level. All budget amendments are approved by the Emergency Manager.

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

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Final Budget	Actual	Variance
General fund:			
General government:			
Emergency Manager	\$ 356,540	\$ 356,738	\$ 198
City clerk	209,198	220,294	11,096
Personnel services	270,262	310,425	40,163
Treasurer	620,581	630,152	9,571
Cemetery Oak Hill	600	1,245	645
Public safety:			
Fire administration	6,735,505	6,746,892	11,387
Building and safety engineer	2,030,815	2,064,414	33,599
Public works:			
Electrical shop	59,741	61,221	1,480
Operations	333,284	386,064	52,780
Engineering	57,391	80,068	22,677
Weed abatement	-	1,742	1,742
Community development -			
Redevelopment and housing	182,537	184,279	1,742
Other -			
Retiree fringe benefits	11,616,077	12,395,980	779,903
Transfers out	2,017,696	2,287,345	269,649

The excess expenditures, in all of the departments shown above, were a direct result of the workers' compensation IBNR which was calculated after fiscal year end and resulted in significant charges to the general fund.



COMBINING FUND STATEMENTS

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Assets				
Cash and cash equivalents	\$ 528,649	\$ -	\$ 140,371	\$ 664,083
Accounts receivable	-	-	9,038	-
Taxes receivable	-	-	-	-
Due from other governments	159,201	-	-	-
Due from other funds	200,000	-	-	-
Total assets	\$ 887,850	\$ -	\$ 149,409	\$ 664,083
Liabilities				
Accounts payable	\$ 104,614	\$ -	\$ 99,150	\$ 74,027
Accrued wages	535	-	50,259	-
Due to other governments	-	-	-	255
Due to other funds	-	-	-	-
Total liabilities	105,149	-	149,409	74,282
Deferred inflows of resources				
Unavailable revenue	-	-	-	-
Fund balances				
Restricted	782,701	-	-	589,801
Unassigned (deficit)	-	-	-	-
Total fund balances (deficit)	782,701	-	-	589,801
Total liabilities, deferred inflows of resources and fund balances	\$ 887,850	\$ -	\$ 149,409	\$ 664,083



Special Revenue Funds					
Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Police Training Grant Act 302	Cable Fund
\$ -	\$ 1,141,485	\$ 232,697	\$ 268,269	\$ -	\$ 1,071,274
-	-	-	-	-	35,189
-	1,393	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,142,878</u>	<u>\$ 232,697</u>	<u>\$ 268,269</u>	<u>\$ -</u>	<u>\$ 1,106,463</u>
\$ -	\$ 7,515	\$ 232,697	\$ 2,464	\$ -	\$ 13,085
-	3,329	-	-	-	31,880
-	58,176	-	-	-	-
-	-	-	-	-	-
-	69,020	232,697	2,464	-	44,965
-	1,393	-	-	-	-
-	1,072,465	-	265,805	-	1,061,498
-	-	-	-	-	-
-	1,072,465	-	265,805	-	1,061,498
<u>\$ -</u>	<u>\$ 1,142,878</u>	<u>\$ 232,697</u>	<u>\$ 268,269</u>	<u>\$ -</u>	<u>\$ 1,106,463</u>

continued...

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue Funds		Capital Projects	
	Neighborhood Stabilization	Energy Efficiency and Conservation	Capital Improvement	Strand Theater Project
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 593,725	\$ -
Accounts receivable	-	-	-	-
Taxes receivable	-	-	4,200	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ -	\$ -	\$ 597,925	\$ -
Liabilities				
Accounts payable	\$ -	\$ -	\$ 22,399	\$ -
Accrued wages	-	-	-	-
Due to other governments	-	-	171,896	-
Due to other funds	-	-	-	-
Total liabilities	-	-	194,295	-
Deferred inflows of resources				
Unavailable revenue	-	-	4,200	-
Fund balances				
Restricted	-	-	399,430	-
Unassigned (deficit)	-	-	-	-
Total fund balances	-	-	399,430	-
Total liabilities, deferred inflows of resources and fund balances	\$ -	\$ -	\$ 597,925	\$ -



Capital Projects

Clinton River Linear Park Trail	Total
\$ -	\$ 4,640,553
-	44,227
-	5,593
304,839	464,040
-	200,000
<u>\$ 304,839</u>	<u>\$ 5,354,413</u>
\$ -	\$ 555,951
-	86,003
-	230,327
304,839	304,839
<u>304,839</u>	<u>1,177,120</u>
<u>304,839</u>	<u>310,432</u>
-	4,171,700
<u>(304,839)</u>	<u>(304,839)</u>
<u>(304,839)</u>	<u>3,866,861</u>
<u>\$ 304,839</u>	<u>\$ 5,354,413</u>

concluded.

CITY OF PONTIAC, MICHIGAN

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

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Revenues				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 669
Federal revenue	-	-	-	-
State revenue	961,511	200,419	182,896	-
Fines and forfeitures	-	-	1,353,779	-
Interest revenue	-	-	1,584	-
Other revenue	-	-	250,719	-
Total revenues	961,511	200,419	1,788,978	669
Expenditures				
Current expenditures:				
General government	-	-	-	-
District court	-	-	4,047,712	-
Public safety	-	-	-	-
Public works and utilities	973,015	24,353	-	92,645
Community development	-	-	-	-
Community and human services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	973,015	24,353	4,047,712	92,645
Revenues over (under) expenditures	(11,504)	176,066	(2,258,734)	(91,976)
Other financing sources (uses)				
Transfers in	426,257	-	2,269,649	-
Transfers out	-	(729,336)	(10,915)	-
Total other financing sources (uses)	426,257	(729,336)	2,258,734	-
Net change in fund balances	414,753	(553,270)	-	(91,976)
Fund balances (deficit), beginning of year	367,948	553,270	-	681,777
Fund balances (deficit), end of year	\$ 782,701	\$ -	\$ -	\$ 589,801



Special Revenue Funds

Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Police Training Grant Act 302	Cable Fund
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\$ -	\$ 237,359	\$ -	\$ -	\$ -	\$ -
620,656	-	319,764	-	-	-
-	-	-	-	-	-
-	-	-	42,612	-	-
-	-	-	-	-	-
-	10,693	-	-	-	170,244

620,656	248,052	319,764	42,612	-	170,244
---------	---------	---------	--------	---	---------

-	-	-	-	-	228,135
-	-	-	-	-	-
-	-	-	251,222	-	-
-	-	-	-	-	-
419,408	-	319,764	-	-	-
-	381,666	-	-	-	-
-	-	-	-	-	-

419,408	381,666	319,764	251,222	-	228,135
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201,248	(133,614)	-	(208,610)	-	(57,891)
---------	-----------	---	-----------	---	----------

-	-	-	-	-	-
-	-	-	-	(5,063)	-

-	-	-	-	(5,063)	-
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201,248	(133,614)	-	(208,610)	(5,063)	(57,891)
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(201,248)	1,206,079	-	474,415	5,063	1,119,389
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\$ -	\$ 1,072,465	\$ -	\$ 265,805	\$ -	\$ 1,061,498
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CITY OF PONTIAC, MICHIGAN

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

	Special Revenue Funds		Capital Projects	
	Neighborhood Stabilization	Energy Efficiency and Conservation	Capital Improvement	Strand Theater Project
Revenues				
Taxes and special assessments	\$ -	\$ -	\$ 671,359	\$ -
Federal revenue	15,733	334,430	-	-
State revenue	-	-	221,442	-
Fines and forfeitures	-	-	-	-
Interest revenue	-	-	-	-
Other revenue	-	-	-	31,294
Total revenues	15,733	334,430	892,801	31,294
Expenditures				
Current expenditures:				
General government	-	-	-	-
District court	-	-	-	-
Public safety	-	-	-	-
Public works and utilities	-	241,100	-	-
Community development	15,733	-	-	-
Community and human services	-	-	-	-
Capital outlay	-	-	229,649	1,503
Total expenditures	15,733	241,100	229,649	1,503
Revenues under expenditures	-	93,330	663,152	29,791
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(516,475)	(175,895)
Total other financing sources (uses)	-	-	(516,475)	(175,895)
Net change in fund balances	-	93,330	146,677	(146,104)
Fund balances (deficit), beginning of year	-	(93,330)	252,753	146,104
Fund balances (deficit), end of year	\$ -	\$ -	\$ 399,430	\$ -



Capital Projects

Clinton River Linear Park Trail	Total
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\$ -	\$ 909,387
-	1,290,583
-	1,566,268
-	1,396,391
-	1,584
-	462,950
<hr/>	
-	5,627,163
<hr/>	
-	228,135
-	4,047,712
-	251,222
-	1,331,113
-	754,905
-	381,666
42,740	273,892
<hr/>	
42,740	7,268,645
<hr/>	
(42,740)	(1,641,482)
<hr/>	
-	2,695,906
-	(1,437,684)
<hr/>	
-	1,258,222
<hr/>	
(42,740)	(383,260)
<hr/>	
(262,099)	4,250,121
<hr/>	
\$ (304,839)	\$ 3,866,861
<hr/> <hr/>	

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CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2013

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Insurance
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,963	\$ 1,995,775	\$ 211,466	\$ 5,523,063
Accounts receivable	-	-	9,370	42,697
Prepays	-	16,883	-	393,081
Total assets	1,963	2,012,658	220,836	5,958,841
Liabilities				
Current liabilities:				
Accounts payable	1,963	54,139	8,195	167,603
Accrued liabilities	-	1,925,000	-	3,206,323
Accrued wages	-	-	-	1,020
Current portion of compensated absences	-	-	-	-
Total current liabilities	1,963	1,979,139	8,195	3,374,946
Noncurrent liabilities - Compensated absences				
	-	-	-	-
Total liabilities	1,963	1,979,139	8,195	3,374,946
Net position				
Unrestricted	\$ -	\$ 33,519	\$ 212,641	\$ 2,583,895



Employee Sick and Vacation	Total
-------------------------------	-------

\$ 547,803	\$ 8,280,070
-	52,067
-	409,964
<u>547,803</u>	<u>8,742,101</u>

-	231,900
-	5,131,323
-	1,020
<u>115,000</u>	<u>115,000</u>
115,000	5,479,243

<u>432,803</u>	<u>432,803</u>
<u>547,803</u>	<u>5,912,046</u>

<u>\$ -</u>	<u>\$ 2,830,055</u>
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CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Net Position Internal Service Funds For the Year Ended June 30, 2013

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Insurance
Operating revenues				
Charges for services	\$ 346,396	\$ 1,096,472	\$ 588,420	\$ 12,028,347
Operating expenses				
Insurance	-	-	375,779	9,405,376
Operating and maintenance costs	667,387	-	-	-
Administration	442,680	-	-	39,076
Workers' compensation expense - net of change in liability	-	1,156,127	-	-
Depreciation	429,938	-	-	-
Total operating expenses	1,540,005	1,156,127	375,779	9,444,452
Operating income (loss)	(1,193,609)	(59,655)	212,641	2,583,895
Nonoperating expenses				
Loss on sale of capital assets	(349,414)	-	-	-
Interest expense and fees	(88,330)	-	-	-
Total nonoperating expenses	(437,744)	-	-	-
Income (loss) before transfers	(1,631,353)	(59,655)	212,641	2,583,895
Other financing sources (uses)				
Transfers in	1,098,035	-	-	-
Transfers out	(669,676)	-	-	-
Total other financing sources	428,359	-	-	-
Change in net position	(1,202,994)	(59,655)	212,641	2,583,895
Net position, beginning of year	1,202,994	93,174	-	-
Net position, end of year	\$ -	\$ 33,519	\$ 212,641	\$ 2,583,895



Employee Sick and Vacation	Total
\$ 872,630	\$ 14,932,265
-	9,781,155
872,630	1,540,017
-	481,756
-	1,156,127
-	429,938
<u>872,630</u>	<u>13,388,993</u>
<u>-</u>	<u>1,543,272</u>
-	(349,414)
<u>-</u>	<u>(88,330)</u>
<u>-</u>	<u>(437,744)</u>
<u>-</u>	<u>1,105,528</u>
-	1,098,035
<u>-</u>	<u>(669,676)</u>
<u>-</u>	<u>428,359</u>
-	1,533,887
<u>-</u>	<u>1,296,168</u>
<u>\$ -</u>	<u>\$ 2,830,055</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Cash Flows
 Internal Service Funds
 For the Year Ended June 30, 2013

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Insurance
Cash flows from operating activities				
Cash received from interfund services	\$ 523,541	\$ 1,096,472	\$ 599,482	\$ 12,675,531
Cash payments for goods and services	(728,047)	(591,449)	(416,322)	(9,533,093)
Cash payments to employees	(422,817)	-	-	(162,973)
Net cash provided by (used for) operating activities	(627,323)	505,023	183,160	2,979,465
Cash flows from noncapital financing activities				
Transfers in	1,098,035	-	-	-
Transfers out	(669,676)	-	-	-
Net cash provided by noncapital financing activities	428,359	-	-	-
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	1,545,831	-	-	-
Principal paid on capital leases	(1,777,044)	-	-	-
Interest paid on capital leases	(191,077)	-	-	-
Net cash used for capital and related financing activities	(422,290)	-	-	-
Net increase (decrease) in cash and cash equivalents	(621,254)	505,023	183,160	2,979,465
Cash and cash equivalents, beginning of year	623,217	1,490,752	28,306	2,543,598
Cash and cash equivalents, end of year	<u>\$ 1,963</u>	<u>\$ 1,995,775</u>	<u>\$ 211,466</u>	<u>\$ 5,523,063</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (1,193,609)	\$ (59,655)	\$ 212,641	\$ 2,583,895
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation expense	429,938	-	-	-
Change in:				
Accounts receivable	23,018	-	11,062	634,984
Inventories	154,127	-	-	-
Prepays	-	137,407	-	12,200
Accounts payable	(36,253)	2,271	(40,543)	69,251
Accrued liabilities	(4,544)	425,000	-	(320,002)
Accrued payroll	-	-	-	(863)
Compensated absences	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ (627,323)</u>	<u>\$ 505,023</u>	<u>\$ 183,160</u>	<u>\$ 2,979,465</u>



Employee Sick and Vacation	Total
\$ 872,630	\$ 15,767,656
-	(11,268,911)
<u>(324,827)</u>	<u>(910,617)</u>
547,803	3,588,128
-	1,098,035
-	<u>(669,676)</u>
-	428,359
-	1,545,831
-	(1,777,044)
-	<u>(191,077)</u>
-	<u>(422,290)</u>
547,803	3,594,197
-	<u>4,685,873</u>
<u>\$ 547,803</u>	<u>\$ 8,280,070</u>

\$ -	\$ 1,543,272
-	429,938
-	669,064
-	154,127
-	149,607
-	(5,274)
-	100,454
-	(863)
<u>547,803</u>	<u>547,803</u>
<u>\$ 547,803</u>	<u>\$ 3,588,128</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2013

	District Court- Agency	Current Tax Collection	Payroll	Fire Insurance
Assets				
Cash and cash equivalents	\$ 102,819	\$ 102,094	\$ 74,519	\$ 115,512
Other receivables	-	-	-	-
Total assets	\$ 102,819	\$ 102,094	\$ 74,519	\$ 115,512
Liabilities				
Accounts payable	\$ 16,459	\$ 567	\$ -	\$ -
Accrued liabilities and other	-	-	74,519	115,512
Due to other governments	-	101,527	-	-
Deposits payable	86,360	-	-	-
Total liabilities	\$ 102,819	\$ 102,094	\$ 74,519	\$ 115,512



Retirement System Administration	Housing Commission Administration	Water Resources Commissioner	Total
\$ - 287,598	\$ - 240,000	\$ 763,447 -	\$ 1,158,391 527,598
<u>\$ 287,598</u>	<u>\$ 240,000</u>	<u>\$ 763,447</u>	<u>\$ 1,685,989</u>
\$ - - 287,598 -	\$ 240,000 - - -	\$ - - 763,447 -	\$ 257,026 190,031 1,152,572 86,360
<u>\$ 287,598</u>	<u>\$ 240,000</u>	<u>\$ 763,447</u>	<u>\$ 1,685,989</u>

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Component Units

June 30, 2013

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Assets				
Cash and cash equivalents	\$ 100,000	\$ 298,172	\$ 82,996	\$ 481,168
Property taxes receivable - net	2,122	1,363	381	3,866
Total assets	\$ 102,122	\$ 299,535	\$ 83,377	\$ 485,034
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	100,000	100,000	70,000	270,000
Total liabilities	100,000	100,000	70,000	270,000
Deferred inflows of resources				
Unavailable revenue	2,122	1,363	381	3,866
Fund balances				
Restricted	-	198,172	12,996	211,168
Total liabilities, deferred inflows of resources and fund balances	\$ 102,122	\$ 299,535	\$ 83,377	\$ 485,034



Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ -	\$ 511	\$ 220,674	\$ 702,353
-	-	-	3,866
<u>\$ -</u>	<u>\$ 511</u>	<u>\$ 220,674</u>	<u>\$ 706,219</u>
\$ -	\$ 511	\$ -	\$ 511
-	-	200,566	470,566
-	511	200,566	471,077
-	-	-	3,866
-	-	20,108	231,276
<u>\$ -</u>	<u>\$ 511</u>	<u>\$ 220,674</u>	<u>\$ 702,353</u>

CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
Component Units
June 30, 2013

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances for component units	\$ -	\$ 198,172	\$ 12,996	\$ 211,168
Amounts reported for <i>component units</i> in the statement of net position are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources, and therefore are not reported in the fund statements:				
Capital assets, net of depreciation	-	5,274,659	-	5,274,659
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.				
Unavailable property taxes receivable	2,122	1,363	381	3,866
Certain liabilities, such as bonds payable, property tax settlements and compensated absences are not due and payable in the current period, and therefore are not reported in the funds.				
Accrued interest on bonds	(26,486)	(180,347)	-	(206,833)
Bonds payable	(3,850,000)	(23,380,000)	-	(27,230,000)
Unamortized discounts	-	767,561	-	767,561
Property tax settlements	(177,529)	-	-	(177,529)
Net position for component units	<u>\$ (4,051,893)</u>	<u>\$ (17,318,592)</u>	<u>\$ 13,377</u>	<u>\$ (21,357,108)</u>



Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ -	\$ -	\$ 20,108	\$ 231,276
-	-	-	5,274,659
-	-	-	3,866
-	-	-	(206,833)
-	-	-	(27,230,000)
-	-	-	767,561
-	-	-	(177,529)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,108</u>	<u>\$ (21,337,000)</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Component Units

For the Year Ended June 30, 2013

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Revenues				
Taxes	\$ (1,221,720)	\$ 1,310,904	\$ 415,929	\$ 505,113
Investment income	26,593	-	-	26,593
Contributions from primary government	19,700,563	-	-	19,700,563
Other revenue	721,457	-	-	721,457
Total revenues	19,226,893	1,310,904	415,929	20,953,726
Expenditures				
Commercial and industrial development	10,000	-	-	10,000
Debt service:				
Principal	19,615,000	685,000	-	20,300,000
Interest and fiscal charges	1,151,749	1,082,081	-	2,233,830
Total expenditures	20,776,749	1,767,081	-	22,543,830
Revenues over (under) expenditures	(1,549,856)	(456,177)	415,929	(1,590,104)
Other financing sources (uses)				
Transfer in	510,849	-	-	510,849
Transfer out	-	-	(510,849)	(510,849)
Total other financing sources (uses)	510,849	-	(510,849)	-
Net change in fund balances	(1,039,007)	(456,177)	(94,920)	(1,590,104)
Fund balances (deficit), beginning of year	1,039,007	654,349	107,916	1,801,272
Fund balances, end of year	\$ -	\$ 198,172	\$ 12,996	\$ 211,168



Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (31,807)	\$ -	\$ 20,108	\$ 493,414
-	3,459	-	30,052
-	-	-	19,700,563
881,875	126,238	-	1,729,570
<hr/>	<hr/>	<hr/>	<hr/>
850,068	129,697	20,108	21,953,599
<hr/>	<hr/>	<hr/>	<hr/>
672,055	1,409,712	-	2,091,767
-	-	-	20,300,000
-	-	-	2,233,830
<hr/>	<hr/>	<hr/>	<hr/>
672,055	1,409,712	-	24,625,597
<hr/>	<hr/>	<hr/>	<hr/>
178,013	(1,280,015)	20,108	(2,671,998)
-	-	-	510,849
-	-	-	(510,849)
<hr/>	<hr/>	<hr/>	<hr/>
-	-	-	-
<hr/>	<hr/>	<hr/>	<hr/>
178,013	(1,280,015)	20,108	(2,671,998)
(178,013)	1,280,015	-	2,903,274
<hr/>	<hr/>	<hr/>	<hr/>
\$ -	\$ -	\$ 20,108	\$ 231,276
<hr/>	<hr/>	<hr/>	<hr/>

CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
Component Units
June 30, 2013

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	\$ (1,039,007)	\$ (456,177)	\$ (94,920)	\$ (1,590,104)
Amounts reported for <i>component units</i> in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Depreciation expense	-	(285,116)	-	(285,116)
Loss on disposal of capital assets	-	-	-	-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.				
	(2,298)	(2,958)	(863)	(6,119)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.				
Principal payments on long-term liabilities	19,615,000	685,000	-	20,300,000
Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.				
Change in accrued interest on bonds and unamortized bond discounts	(166,213)	(42,642)	-	(208,855)
Change in property tax settlements	59,177	1,047,710	-	1,106,887
Change in compensated absences	22,647	-	-	22,647
Change in net position of component units	<u>\$ 18,489,306</u>	<u>\$ 945,817</u>	<u>\$ (95,783)</u>	<u>\$ 19,339,340</u>



Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ 178,013	\$ (1,280,015)	\$ 20,108	\$ (2,671,998)
-	-	-	(285,116)
-	(5,953,948)	-	(5,953,948)
(5,313)	-	-	(11,432)
-	-	-	20,300,000
-	-	-	(208,855)
-	-	-	1,106,887
-	-	-	22,647
<u>\$ 172,700</u>	<u>\$ (7,233,963)</u>	<u>\$ 20,108</u>	<u>\$ 12,298,185</u>

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