

City of Pontiac,
Michigan



Year Ended
June 30, 2014

Financial
Statements

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CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 19, 2014

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* (the "City"), as of and for the year ended June 30, 2014, 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 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 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 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, 2014, 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.

Restatements of Beginning Net Position

As discussed in Note 19 to the financial statements, the beginning net position of governmental activities has been decreased to correct an error in recording certain capital assets. In addition, beginning net position of governmental activities has been increased to correct an error in the calculation of the other postemployment benefit obligation. Our opinion is not modified with respect to these matters.

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 14, 2014 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.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

As management of the City of Pontiac, we offer readers of the City of Pontiac's financial statements this narrative overview and analysis of the financial activities of the City of Pontiac for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here and contact City Administration at 248-758-3133 if you have any questions.

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, 2014:

- The assets and deferred outflows of resources of the City of Pontiac exceeded its liabilities at the close of the most recent fiscal year by \$54,418,426 (net position). Of this amount, -\$48,586,420 represents unrestricted net position (deficit), which may be used to meet the government's ongoing obligations to citizens and creditors if such amount was positive. The City does not have the ability to use its assets to meet its obligations.
- The City of Pontiac's total net position decreased by 24.9% from a year ago from \$72,417,040 to \$54,418,426. This decrease is nearly entirely attributable to an increase in long-term liabilities.
- At the close of the current fiscal year, the City of Pontiac's governmental funds reported combined ending fund balances of \$16,550,913, an increase of \$7,916,745 in comparison with the prior year. Of this amount, \$3,931,555 is available for spending at the government's discretion (unrestricted net position).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,267,040 or 15.6% of total general fund expenditures. The government hopes to maintain at least 15% unassigned fund balance.
- The City of Pontiac's total outstanding long-term debt increased by \$6,558,343 during the current fiscal year as the City recorded a 2007C TIFA bond financial guarantee as the City realized that TIF tax captures will be insufficient to meet the debt obligations of the TIFA.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Pontiac's basic financial statements. The City of Pontiac's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents financial information on all of the City of Pontiac's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Pontiac is improving or deteriorating.

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

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the City of Pontiac that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Pontiac include general government, public safety, public works, community development, community and human services, and recreation. The business-type activities of the City of Pontiac include the Phoenix Center (parking fund) and the golf course which was sold during the fiscal year.

The government-wide financial statements include not only the City of Pontiac itself (known as the primary government), but also a legally separate Tax Increment Finance Authority and a legally separate Brownfield Redevelopment Authority, known as component units, for which the City of Pontiac is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

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

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

The City of Pontiac maintains 15 individual governmental funds. Information is presented separately for each major fund (general, sanitation, and major street) and combined for the nonmajor funds in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. Individual fund data for the nonmajor funds is found in the supplementary information.

Under Order S-334 and City ordinance, the City of Pontiac adopts a two-year budget. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds are used by the City of Pontiac to provide the same type of information as the government-wide financial statements, only in more detail. Two types of proprietary funds are used. Enterprise funds are used to report the same functions as presented as business-type activities in the government-wide financial statements. The parking fund and the golf course fund are the two proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Pontiac's various functions. The City of Pontiac uses internal service funds to account for costs related to workers compensation, insurance, and accrued employee time off in the self-insurance workers' compensation fund, the insurance fund, and the employee sick and vacation fund. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Phoenix Center and Pontiac Golf Course, both of which are considered to be major funds of the City of Pontiac. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Fiduciary funds are used to account for resources held by the government for the benefit of outside parties. Fiduciary funds are not reported in the government-wide financial statement because the fund's resources are not available to support the programs of the City of Pontiac. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City of Pontiac's progress in funding its obligation to provide pension and OPEB benefits to its employees and budgetary information for the City's major funds.

The combining statements referred to earlier in connection with the nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

Government-wide Overall Financial Analysis

The following table shows, in a condensed format, the net position as of the current date:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$31,708,092	\$27,157,889	\$ 2,565,007	\$ 2,531,216	\$34,273,099	\$29,689,105
Capital assets, net	80,878,657	84,496,433	12,209,692	15,029,881	93,088,349	99,526,314
Total assets	112,586,749	111,654,322	14,774,699	17,561,097	127,361,448	129,215,419
Liabilities						
Current liabilities	8,759,361	13,166,869	40,504	137,015	8,799,865	13,303,884
Long-term liabilities	64,143,157	43,494,495	-	-	64,143,157	43,494,495
Total liabilities	72,902,518	56,661,364	40,504	137,015	72,943,022	56,798,379
Net position:						
Net investment in capital assets	80,878,657	84,496,433	12,209,692	15,029,881	93,088,349	99,526,314
Restricted	9,916,497	6,749,562	-	-	9,916,497	6,749,562
Unrestricted	(51,110,923)	(36,253,037)	2,524,503	2,394,201	(48,586,420)	(33,858,836)
Total net position	\$39,684,231	\$54,992,958	\$14,734,195	\$17,424,082	\$54,418,426	\$ 72,417,040

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Pontiac, assets and deferred outflows of resources exceeded liabilities by \$54,418,426 at the close of the most recent fiscal year. By far, the largest portion of the City of Pontiac's net position (\$93,088,349) reflects investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure), less any outstanding debt that was used to acquire those assets. The City of Pontiac uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Pontiac's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Pontiac's net position (\$9,916,497) represents resources that are subject to external restrictions on how they may be used. The remaining deficit of \$48,586,420 is unrestricted and could be used to meet the government's ongoing obligations to its citizens and creditors if the net position was positive.

The City of Pontiac's overall net position decreased \$17,998,614 from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. During the current fiscal year, net position for governmental activities decreased \$15,308,727 from the prior fiscal year for an ending balance of \$39,684,231. The purpose for this decrease was two-fold. First, the City recorded a financial guarantee to pay TIFA bonds. Second, the City failed to fund its OPEB obligations because the City was not required to fund with the permission of the State Treasurer.

Business-type activities. The City's business-type activities consist of the parking and golf course funds. The City owns the Phoenix Center parking structure, which is presently the subject of litigation. Also during the fiscal year, the City sold the Pontiac Municipal Golf Course, which reduced the total net position of business-type activities from \$17,424,082 to \$14,734,195.

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 7,799,259	\$ 8,465,027	\$ 124,302	\$ 2,816,869	\$ 7,923,561	\$11,281,896
Operating grants	7,690,210	9,367,411	8,841	313,831	7,699,051	9,681,242
Capital grants	-	-	-	-	-	-
General revenues:						
Property taxes	8,984,740	9,659,878	-	-	8,984,740	9,659,878
Income taxes	11,609,047	9,720,696	-	-	11,609,047	9,720,696
State shared revenues	9,151,547	8,848,429	-	-	9,151,547	8,848,429
Unrestricted investment earnings	20,325	2,244	-	-	20,325	2,244
Cable franchise fees	567,148	701,860	-	-	567,148	701,860
Loss on sale of assets	-	-	39,900	-	39,900	-
Total revenues	45,822,276	46,765,545	173,043	3,130,700	45,995,319	49,896,245

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CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Expenses:						
General government	\$12,571,081	\$18,324,071	\$ -	\$ -	\$12,571,081	\$18,324,071
Public safety	27,629,708	25,201,829	-	-	27,629,708	25,201,829
Public works	11,279,399	16,766,280	-	-	11,279,399	16,766,280
Health and welfare	-	138,230	-	-	-	138,230
Community development	9,305,158	20,761,832	-	-	9,305,158	20,761,832
Community and human services	536,279	802,853	-	-	536,279	802,853
Recreation	159,044	585,909	-	-	159,044	585,909
Interest on long-term debt	-	504,894	-	-	-	504,894
Water	-	-	-	2,034,981	-	2,034,981
Sewer	-	-	-	1,750,307	-	1,750,307
Parking	-	-	803,879	900,836	803,879	900,836
Golf course	-	-	1,709,385	14,476	1,709,385	14,476
Total expenses	61,480,669	83,085,898	2,513,264	4,700,600	63,993,933	87,786,498
Excess of revenue (under) over expenses before special items and transfers	(15,658,393)	(36,320,353)	(2,340,221)	(1,569,900)	(17,998,614)	(37,890,253)
Special items						
Gain on sale of assets	-	-	-	46,581,102	-	46,581,102
Loss on transfer of operation	-	-	-	(45,373,326)	-	(45,373,326)
Transfers	349,666	50,185,459	(349,666)	(50,185,459)	-	-
Change in net position	(15,308,727)	13,865,106	(2,689,887)	(50,547,583)	(17,998,614)	(36,682,477)
Net position:						
Beginning of year, as restated	54,992,958	41,127,852	17,424,082	67,971,665	72,417,040	109,099,517
End of year	\$39,684,231	\$54,992,958	\$14,734,195	\$17,424,082	\$54,418,426	\$72,417,040

concluded.

Financial Analysis of the City's Funds

As noted earlier, the City of Pontiac uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Pontiac's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Pontiac's financing requirements. In particular, unassigned fund balance serves as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Pontiac itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the Pontiac City Council or Emergency Manager.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

At June 30, 2014, the City of Pontiac's governmental funds reported combined fund balances of \$16,550,913 an increase of \$7,916,745 in comparison with the prior year. Approximately 23.8% of this amount (\$3,931,555) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in a spendable form (\$908,215), 2) legally required to be maintained intact (\$11,711,143), 3) restricted for particular purposes (\$0), 4) committed for particular purposes (\$0), or 5) assigned for particular purposes (\$0).

The general fund is the chief operating fund of the City of Pontiac. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,267,040, while total fund balance increased to \$5,131,489. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 15.6% of the total general fund expenditures, while total fund balance represents approximately 18.8% of that same amount.

The fund balance of the City of Pontiac's general fund increased by \$4,256,406 during the current fiscal year. The increase was due to the City spending less money than budgeted on contributions to the Police and Fire Retirement System and received more revenue from income tax collections and less property tax chargebacks from previous years than anticipated.

The major street fund, a major fund, had a \$1,023,777 increase in fund balance during the current fiscal year which increased the overall fund balance to \$2,849,200. The increase in fund balance was caused by the City delaying major construction projects for at least one year.

The sanitation fund, a major fund, had a \$1,156,261 increase in fund balance during the current fiscal year which increased the overall fund balance to \$3,747,112. The increase in fund balance was caused by the City levying a user fee to adequately cover the full cost of sanitation.

Proprietary Funds. The City of Pontiac's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the parking fund at the end of the fiscal year was \$2,524,503 and for the golf course fund was zero. The total decrease in net position for the proprietary funds was \$2,689,887, comprised of a decrease of \$384,565 in the parking fund and a \$2,305,322 decrease in the golf fund. As noted earlier in the discussion of business-type activities, the decrease in the golf fund was due to the sale of the golf course.

General Fund Budgetary Highlights

Original budget compared to final budget. Over the course of the year, the City amended the budget twice to take into account events during the year. The first amendment was adopted by the Emergency Manager just before his resignation. This amendment was needed to recognize some minor changes in staffing that occurred soon after the fiscal year started. A second amendment was approved by the Pontiac City Council, Transition Advisory Board, and State Treasurer to recognize a previously unbudgeted bond payment contribution to offset the loss in the TIFA funds.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

- Total revenues exceeded the final budget by \$614,690. Total tax collections exceeded final budget estimates by \$1,096,313. Of that amount, \$780,084 was attributed to lower than anticipated property tax chargebacks and refunds, and \$316,299 was attributed to increased income tax collections. Licenses and permits generated \$274,564 less than anticipated due to a slower than projected response to the vacant property registration program. Other revenue generated \$263,965 less than anticipated because miscellaneous revenue failed to generate \$214,267 less than anticipated.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

- Total expenditures came in \$3,185,505 less than budgeted. The largest component of the savings resulted from the need not to make the budgeted contribution to the Police and Fire Pension System (\$1,396,789). The second largest component resulted in \$1,140,938 savings in public safety primarily from less than project expenditures in building and safety (\$681,746), workers compensation (\$311,649), and savings from Oakland County Sheriff overtime (\$147,936). The third largest component in savings of \$406,540 was derived from less spending in general government activities, with savings primarily realized by income tax administration (\$140,362), legal expenditures (\$83,663), building maintenance (\$75,338), and treasury functions (\$48,841).
- In January of 2014, a cash flow forecast projected that the general fund was going to require interfund borrowing to meet day-to-day obligations in March and April. Through the first six months of the year, income tax collections were significantly behind projections and the City was unable to determine if property tax chargebacks in May would mirror the level of previous fiscal years. Administration projected a \$375,000 shortfall in revenue and impounded \$375,000 in authorized expenditures. As a result of the impounding of funds, all department heads were very frugal with spending requests. In late May, two revenue concerns identified in January proved not to be valid when income tax collections began spiking in April and May at a rate higher than in previous years and the City was not charged for unpaid property taxes by the County Treasurer at the same rate in previous years. In June, the impoundment order was lifted. Also late in the fiscal year, the Finance Director discovered that the City had budgeted the subsequent fiscal year's pension contribution which was significantly higher than the amount required for the current fiscal year. Finally, several workers compensation cases were settled during the year which resulted in a lower funding requirement for the City's self-insured program. This calculation was not completed until after June 30.

Capital Asset and Debt Administration

Capital assets. The City of Pontiac's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$93,088,349 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, vehicles, and infrastructure. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements. The total decrease in the City of Pontiac's investment in capital assets for the current fiscal year was \$3,617,776 for governmental activities and \$2,820,189 for business-type activities as the City disposed of many assets during the year.

Major capital asset events during the current fiscal year included the following:

- The sale of the Pontiac Municipal Golf Course
- State trunk lines previously capitalized as City roads were removed from the City's financial statements.

Long-term debt. At the end of the current fiscal year, the City of Pontiac had total indebtedness of \$72,943,022. All debt is backed by the full faith and credit of the government.

The City of Pontiac's total indebtedness increased by \$16,144,643 during the current fiscal year. The reason for the increase was that the City failed to fund OPEB.

Presently, the City of Pontiac does not have any debt that is rated by any of the debt rating agencies.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation for the City of Pontiac is approximately \$66.3 million.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

- The City's largest source of revenue is local income tax. Administration confirmed that the City of Pontiac had not actively participated in the State of Michigan non-filer program. The City ordered the data for tax years 2010, 2011, and 2012 which identified nearly \$7.8 million in potentially collectable income tax. The City budgeted \$100,000 in collections in both ensuing fiscal years, but collections to date have dramatically exceeded expectations with very little effort.
- State revenue sharing is the City's second largest source of income. The 2014-15 budget used the Governor's recommendations, but final legislation has resulted in an authorized appropriate for Pontiac which is \$45,000 less than budgeted. City Council anticipates that state revenue sharing received by Pontiac in the 2015-16 fiscal year will be \$300,000 greater than the Governor has proposed.
- City property tax collections are the third largest source of revenue for Pontiac. The City has projected in its budgets for both ensuing fiscal years that nearly all of the uncollected property taxes returned to the County Treasurer will be charged back to the City. The October land sale resulted in a chargeback significantly less than anticipated.
- The City has established user fees to cover the cost of providing services and also to allow for having a planner on site four days a week.
- At the end of 2014, total property values in Pontiac continue to decline at a rate approaching a negative two percent. The City was anticipating a five percent reduction for budgeting purposes.
- Significant new construction projects in Pontiac are occurring in tax increment finance districts.
- Charges for general liability are proving to be less than anticipated as the City continues to settle outstanding lawsuits or prevail at levels less than anticipated. The number of lawsuits filed against the City has decreased significantly from four years ago.
- Health insurance expenditures for family coverage of 50th District Court employees are estimated to cost the City about \$30,000 for family coverage by January 1, 2016. State law limits the City's exposure to about \$16,000, once the union contract expires on June 30, 2016.
- The City continues to see an interest from single family housing developers provided that the City subsidize the construction.
- The City is significantly reducing the amount of excess housing units in the City through a strong demolition program of dangerous structures.

Because Proposal A limits the growth in taxable value on any individual property to the lesser of inflation or five percent, if the City's taxable value were to equal the SEV, the time it would take the City to recover from the cumulative growth of the loss of property taxes would be hampered significantly in the future.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Effective September 1, 2013, the City of Pontiac received permission from the State Treasurer to temporarily modify collective bargaining agreements 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 by the federal District Court, but later remanded after a hearing by the full 6th Circuit Court of Appeals. As long as benefits are suspended, the City is expected to save about \$10 million per year and allows the City to operate under a structurally balanced budget. In addition, the City of Pontiac received permission from the State Treasurer to temporarily suspend contributions to the Police and Fire Retiree Prefunded Group Health and Insurance Trust during the period of receivership. This will save the City an additional \$4.5 million per year. This action is also subject of litigation.

Effective July 1, 2016, all 50th District Court union employees will be required to pay a portion of their health insurance costs and comply with Public Act 152. This is expected to save the City approximately \$200,000.

The City of Pontiac plans to use \$362,988 of its unassigned fund balance in the general fund for the 2014-15 fiscal year. The purpose for the use of this fund balance is to meet \$328,000 of delayed contributions to the Police and Fire Retirement System, \$25,000 to obtain an environmental assessment to allow the sale of the Ewalt Center, and \$13,200 for the acquisition of software that will allow customers to apply for and obtain building permits online. Each of these expenditures was identified in the 2013-14 budget, but the costs were not incurred.

Requests for Information

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Finance Director at Pontiac City Hall, 47450 Woodward Ave., Pontiac, Michigan, 48342.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Statement of Net Position

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and investments	\$ 18,579,058	\$ 2,377,622	\$ 20,956,680	\$ 844,081
Receivables, net	8,302,044	3,945	8,305,989	4,149
Other assets	2,311,961	183,440	2,495,401	-
Restricted assets	2,515,029	-	2,515,029	-
Capital assets not being depreciated	20,997,498	3,166,454	24,163,952	-
Capital assets being depreciated, net	59,881,159	9,043,238	68,924,397	4,989,543
Total assets	112,586,749	14,774,699	127,361,448	5,837,773
Deferred outflows of resources				
Deferred loss on refunding	-	-	-	724,918
Liabilities				
Accounts payable and accrued liabilities	8,759,361	40,504	8,799,865	1,349,291
Long-term liabilities:				
Due within one year	972,875	-	972,875	1,259,088
Due in more than one year	9,118,983	-	9,118,983	25,009,088
Other noncurrent liabilities - Net other postemployment benefit obligation	54,051,299	-	54,051,299	-
Total liabilities	72,902,518	40,504	72,943,022	27,617,467
Net position				
Net investment in capital assets	80,878,657	12,209,692	93,088,349	-
Restricted for:				
Roads	4,580,365	-	4,580,365	-
Drug enforcement	275,016	-	275,016	-
Capital projects	430,321	-	430,321	-
Sanitation	1,908,700	-	1,908,700	-
Drains	546,211	-	546,211	-
Senior activities	994,061	-	994,061	-
Community development	16,238	-	16,238	-
District court	84,146	-	84,146	-
Cable television	1,081,439	-	1,081,439	-
Unrestricted (deficit)	(51,110,923)	2,524,503	(48,586,420)	(21,054,776)
Total net position (deficit)	\$ 39,684,231	\$ 14,734,195	\$ 54,418,426	\$ (21,054,776)

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

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 12,571,081	\$ 1,103,703	\$ 2,518,759	\$ (8,948,619)
Public safety	27,629,708	2,778,850	102,489	(24,748,369)
Public works	11,279,399	3,747,915	3,963,019	(3,568,465)
Health and welfare	-	-	5,246	5,246
Community development	9,305,158	166,781	1,084,999	(8,053,378)
Community and human services	536,279	-	15,220	(521,059)
Recreation	159,044	2,010	478	(156,556)
Total governmental activities	61,480,669	7,799,259	7,690,210	(45,991,200)
Business-type activities:				
Parking fund	803,879	124,302	112	(679,465)
Golf course fund	1,709,385	-	8,729	(1,700,656)
Total business-type activities	2,513,264	124,302	8,841	(2,380,121)
Total primary government	\$ 63,993,933	\$ 7,923,561	\$ 7,699,051	\$ (48,371,321)
Component units				
Tax Increment Financing Authority	\$ 2,292,897	\$ -	\$ -	\$ (2,292,897)
Brownfield Redevelopment Authority	14,216	-	-	(14,216)
Total component units	\$ 2,307,113	\$ -	\$ -	\$ (2,307,113)

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (45,991,200)	\$ (2,380,121)	\$ (48,371,321)	\$ (2,307,113)
General revenues				
Property taxes	8,984,740	-	8,984,740	1,666,080
Income taxes	11,609,047	-	11,609,047	-
State-shared revenue (unrestricted)	9,151,547	-	9,151,547	-
Unrestricted investment earnings	20,325	-	20,325	-
Cable franchise fees	567,148	-	567,148	-
Gain on sale of assets	-	39,900	39,900	-
Other general revenues	-	-	-	38,696
Contributions from primary government	-	-	-	884,561
Transfers	349,666	(349,666)	-	-
Total general revenues and transfers	30,682,473	(309,766)	30,372,707	2,589,337
Change in net position	(15,308,727)	(2,689,887)	(17,998,614)	282,224
Net position (deficit), beginning of year, as restated	54,992,958	17,424,082	72,417,040	(21,337,000)
Net position (deficit), end of year	\$ 39,684,231	\$ 14,734,195	\$ 54,418,426	\$ (21,054,776)

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, 2014

	General	Major Streets	Sanitation	Nonmajor Governmental Funds	Totals
Assets					
Cash and investments	\$ 4,541,655	\$ 2,232,025	\$ 1,851,441	\$ 5,312,334	\$ 13,937,455
Accounts receivable	552,967	-	55,757	37,783	646,507
Taxes receivable, net	3,924,805	-	9,406	6,586	3,940,797
Due from other governments	1,801,551	536,231	-	536,150	2,873,932
Due from other funds	98,003	274,664	-	-	372,667
Prepays	864,449	-	-	43,766	908,215
Restricted cash and cash equivalents	-	-	2,515,029	-	2,515,029
Total assets	\$ 11,783,430	\$ 3,042,920	\$ 4,431,633	\$ 5,936,619	\$ 25,194,602
Liabilities					
Accounts payable	\$ 1,357,040	\$ 192,784	\$ 252,513	\$ 48,600	\$ 1,850,937
Accrued wages	32,337	936	1,005	40,720	74,998
Due to other governments	2,105,496	-	366,207	296,865	2,768,568
Due to other funds	-	-	-	372,667	372,667
Deposits payable	410,422	-	-	12,583	423,005
Total liabilities	3,905,295	193,720	619,725	771,435	5,490,175
Deferred inflows of resources					
Unavailable revenue	2,746,646	-	64,796	342,072	3,153,514
Fund balances					
Nonspendable	864,449	-	-	43,766	908,215
Restricted	-	2,849,200	3,747,112	5,114,831	11,711,143
Unassigned (deficit)	4,267,040	-	-	(335,485)	3,931,555
Total fund balances	5,131,489	2,849,200	3,747,112	4,823,112	16,550,913
Total liabilities, deferred inflows of resources and fund balances	\$ 11,783,430	\$ 3,042,920	\$ 4,431,633	\$ 5,936,619	\$ 25,194,602

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

CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds	\$ 16,550,913
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	20,997,498
Capital assets being depreciated	146,226,405
Accumulated depreciation	(86,345,246)
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.	
	3,153,514
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.	
	2,753,881
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(7,757,725)
Tax settlement agreements	(5,298)
Landfill closure and postclosure costs	(1,838,412)
Net other postemployment benefit obligation	(54,051,299)
Net position of governmental activities	<u>\$ 39,684,231</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, 2014

	General	Major Streets	Sanitation	Nonmajor Governmental Funds	Totals
Revenues					
Taxes and special assessments	\$ 17,155,854	\$ -	\$ 1,338,490	\$ 1,006,899	\$ 19,501,243
Licenses and permits	2,598,936	-	-	-	2,598,936
Federal revenue	5,391	-	-	822,146	827,537
State revenue	9,193,167	3,377,581	-	1,529,827	14,100,575
Contributions from local units	5,246	-	-	-	5,246
Charges for services	1,145,316	-	3,282,665	-	4,427,981
Fines and forfeitures	-	-	-	1,631,369	1,631,369
Interest	9	-	17,315	3,001	20,325
Other	1,116,105	4,738	-	411,052	1,531,895
Total revenues	31,220,024	3,382,319	4,638,470	5,404,294	44,645,107
Expenditures					
Current:					
General government	3,353,452	-	-	118,368	3,471,820
District court	-	-	-	2,368,497	2,368,497
Public safety	20,282,336	-	-	25,771	20,308,107
Public works	1,577,742	1,905,267	3,482,209	653,235	7,618,453
Community development	1,204,754	-	-	342,679	1,547,433
Community and human services	-	-	-	356,640	356,640
Recreation	159,044	-	-	-	159,044
General and special programs	790,127	-	-	-	790,127
Capital outlay	-	-	-	457,907	457,907
Total expenditures	27,367,455	1,905,267	3,482,209	4,323,097	37,078,028
Revenues over expenditures	3,852,569	1,477,052	1,156,261	1,081,197	7,567,079
Other financing sources (uses)					
Transfers in	828,323	-	-	877,761	1,706,084
Transfers out	(424,486)	(453,275)	-	(478,657)	(1,356,418)
Total other financing sources (uses)	403,837	(453,275)	-	399,104	349,666
Net changes in fund balances	4,256,406	1,023,777	1,156,261	1,480,301	7,916,745
Fund balances, beginning of year	875,083	1,825,423	2,590,851	3,342,811	8,634,168
Fund balances, end of year	\$ 5,131,489	\$ 2,849,200	\$ 3,747,112	\$ 4,823,112	\$ 16,550,913

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

CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances
to Changes in Net Position of Governmental Activities
For the Year Ended June 30, 2014

Net changes in fund balances - total governmental funds	\$ 7,916,745
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	1,449,251
Depreciation expense	(4,877,861)
Loss on disposal of capital assets	(189,166)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,174,521
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 net other postemployment benefit obligation	(13,415,898)
Change in net pension obligation	464,931
Change in the accrual for tax settlement agreement	2,649
Change in financial guarantee	(7,757,725)
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>(76,174)</u>
Change in net position of governmental activities	<u><u>\$ (15,308,727)</u></u>

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

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CITY OF PONTIAC, MICHIGAN

Statement of Fund Net Position

Proprietary Funds

June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Parking	Golf Course	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,377,622	\$ -	\$ 2,377,622	\$ 4,641,603
Accounts receivable	3,945	-	3,945	840,808
Prepays	183,440	-	183,440	1,403,746
Total current assets	<u>2,565,007</u>	<u>-</u>	<u>2,565,007</u>	<u>6,886,157</u>
Noncurrent assets				
Capital assets not being depreciated	3,166,454	-	3,166,454	-
Capital assets being depreciated, net	9,043,238	-	9,043,238	-
Total noncurrent assets	<u>12,209,692</u>	<u>-</u>	<u>12,209,692</u>	<u>-</u>
Total assets	<u>14,774,699</u>	<u>-</u>	<u>14,774,699</u>	<u>6,886,157</u>
Liabilities				
Current liabilities:				
Accounts payable	29,059	-	29,059	31,046
Accrued liabilities	-	-	-	3,610,000
Accrued wages	-	-	-	807
Due to other governments	11,445	-	11,445	-
Current portion of compensated absences	-	-	-	143,442
Total current liabilities	<u>40,504</u>	<u>-</u>	<u>40,504</u>	<u>3,785,295</u>
Noncurrent liabilities -				
Compensated absences	-	-	-	346,981
Total liabilities	<u>40,504</u>	<u>-</u>	<u>40,504</u>	<u>4,132,276</u>
Net position				
Net investment in capital assets	12,209,692	-	12,209,692	-
Unrestricted	2,524,503	-	2,524,503	2,753,881
Total net position	<u>\$ 14,734,195</u>	<u>\$ -</u>	<u>\$ 14,734,195</u>	<u>\$ 2,753,881</u>

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

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Parking	Golf Course	Total	Internal Service Funds
Operating revenues				
Charges for services	\$ 124,302	\$ -	\$ 124,302	\$ 4,687,457
Other operating revenue	112	8,729	8,841	-
Total operating revenues	124,414	8,729	133,143	4,687,457
Operating expenses				
Insurance	-	-	-	4,680,664
Operating and maintenance costs	270,300	122,775	393,075	-
Workers' compensation expense	-	-	-	82,967
Depreciation	533,579	-	533,579	-
Total operating expenses	803,879	122,775	926,654	4,763,631
Operating loss	(679,465)	(114,046)	(793,511)	(76,174)
Nonoperating revenues (expense)				
Gain (loss) on sale of capital assets	39,900	(1,586,610)	(1,546,710)	-
Loss before transfers	(639,565)	(1,700,656)	(2,340,221)	(76,174)
Transfers in	255,000	-	255,000	212,641
Transfers out	-	(604,666)	(604,666)	(212,641)
Change in net position	(384,565)	(2,305,322)	(2,689,887)	(76,174)
Net position, beginning of year	15,118,760	2,305,322	17,424,082	2,830,055
Net position, end of year	\$ 14,734,195	\$ -	\$ 14,734,195	\$ 2,753,881

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

CITY OF PONTIAC, MICHIGAN

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Parking	Golf Course	Total	Internal Service Funds
Cash flows from operating activities				
Cash received from customers	\$ 166,254	\$ 8,729	\$ 174,983	\$ 3,898,716
Cash payments to suppliers	(534,565)	(138,461)	(673,026)	(7,428,556)
Cash payments to employees	-	-	-	(106,664)
Net cash used for operating activities	<u>(368,311)</u>	<u>(129,732)</u>	<u>(498,043)</u>	<u>(3,636,504)</u>
Cash flows from noncapital financing activities				
Transfers in from other funds	255,000	-	255,000	212,641
Transfers to other funds	-	(604,666)	(604,666)	(212,641)
Net cash provided by (used for) noncapital financing activities	<u>255,000</u>	<u>(604,666)</u>	<u>(349,666)</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	39,900	700,000	739,900	-
Net change in cash and cash equivalents	(73,411)	(34,398)	(107,809)	(3,636,504)
Cash and cash equivalents, beginning of year	<u>2,451,033</u>	<u>34,398</u>	<u>2,485,431</u>	<u>8,278,107</u>
Cash and cash equivalents, end of year	<u>\$ 2,377,622</u>	<u>\$ -</u>	<u>\$ 2,377,622</u>	<u>\$ 4,641,603</u>
Reconciliation of operating loss to net cash used for operating activities				
Operating loss	\$ (679,465)	\$ (114,046)	\$ (793,511)	\$ (76,174)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation expense	533,579	-	533,579	-
Change in:				
Accounts receivable	41,840	-	41,840	(788,741)
Prepays	(183,440)	-	(183,440)	(993,782)
Accounts payable	(61,919)	(686)	(62,605)	(198,891)
Accrued liabilities	-	-	-	(1,521,323)
Accrued wages	-	-	-	(213)
Due to other governments	(4,289)	-	(4,289)	-
Deposits payable	(14,617)	(15,000)	(29,617)	-
Compensated absences	-	-	-	(57,380)
Net cash used for operating activities	<u>\$ (368,311)</u>	<u>\$ (129,732)</u>	<u>\$ (498,043)</u>	<u>\$ (3,636,504)</u>

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

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position Fiduciary Funds

	December 31, 2013	June 30, 2014
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 6,697,516	\$ 1,694,043
Investments at fair value:		
Money market funds	32,723,977	-
U.S government obligations and agencies	26,585,058	-
Mortgage-backed securities	2,807,900	-
Collateralized mortgage obligations	687,833	-
U.S government mortgage-backed securities	44,026,269	-
Commercial mortgage pools	6,358,096	-
Asset-backed securities	9,733,505	-
Corporate and other bonds	26,326,101	-
High-yield bonds	20,922,013	-
Foreign bonds and notes	84,626	-
Limited partnerships	61,035,806	-
Domestic stock	137,620,865	-
Foreign stock	12,426,476	-
Bonds	18,884,332	-
Short-term investments	927,134	-
Foreign equity mutual fund	5,980,582	-
Equities	335,269,085	-
Private equities	13,522,881	-
Real estate investment trusts	388,520	-
Real estate limited partnerships	10,327,887	-
Private placement bonds	52,045	-
Accrued interest and dividends receivable	1,773,012	-
Due from broker	38,343	-
Other receivables	3,312	-
Due from Police and Fire Retirement System VEBA	86,698	-
Total assets	<u>775,289,872</u>	<u>\$ 1,694,043</u>

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position Fiduciary Funds

	December 31, 2013	June 30, 2014
	Pension and Other Postemployment Trust Funds	Agency Funds
Liabilities		
Due to City of Pontiac	\$ 457,102	\$ -
Due to Police and Fire Retirement System	86,698	-
Accounts payable and other	1,293,557	-
Accounts payable	-	25,772
Accrued liabilities	-	126,778
Due to other governments	-	1,383,759
Deposits	-	157,734
Total liabilities	<u>1,837,357</u>	<u>\$ 1,694,043</u>
Net position held in trust for		
Pension benefits	734,993,092	
Other postemployment benefits	<u>38,459,423</u>	
Total net position	<u>\$ 773,452,515</u>	

concluded.

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, 2013

Additions

Investment income:

Interest and dividend income	\$ 14,177,688
Net increase in fair value	125,624,958
Less investment advisor fees	<u>(3,868,154)</u>

Net investment income 135,934,492

Contributions:

Employer	450,898
Employees	<u>754,981</u>

Total contributions 1,205,879

Miscellaneous and litigation revenue 58,324

Total additions 137,198,695

Deductions

Retirees' pension benefits and	43,597,663
Retiree health benefit payments	2,127,236
Administrative expenses	<u>1,312,617</u>

Total deductions 47,037,516

Change in net position 90,161,179

Net position, beginning of year 683,291,336

Net position, end of year \$ 773,452,515

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, 2014

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	\$ 607,055	\$ 237,026	\$ 844,081
Receivables, net	4,149	-	4,149
Capital assets being depreciated - net	4,989,543	-	4,989,543
Total assets	5,600,747	237,026	5,837,773
Deferred outflows of resources			
Deferred loss on refunding	724,918	-	724,918
Liabilities			
Accounts payable and accrued liabilities	1,339,128	10,163	1,349,291
Long-term liabilities:			
Due within one year	1,259,088	-	1,259,088
Due in more than one year	25,009,088	-	25,009,088
Total liabilities	27,607,304	10,163	27,617,467
Net position			
Unrestricted (deficit)	\$ (21,281,639)	\$ 226,863	\$ (21,054,776)

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, 2014

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Commercial and industrial development	\$ 1,055,803	\$ 14,216	\$ 1,070,019
Interest on long-term debt	1,237,094	-	1,237,094
Total expenses	<u>2,292,897</u>	<u>14,216</u>	<u>2,307,113</u>
General revenues			
Property taxes	1,445,109	220,971	1,666,080
Other general revenues	38,696	-	38,696
Contributions from primary government	884,561	-	884,561
Total general revenues	<u>2,368,366</u>	<u>220,971</u>	<u>2,589,337</u>
Change in net position	75,469	206,755	282,224
Net position (deficit), beginning of year	<u>(21,357,108)</u>	<u>20,108</u>	<u>(21,337,000)</u>
Net position (deficit), end of year	<u><u>\$ (21,281,639)</u></u>	<u><u>\$ 226,863</u></u>	<u><u>\$ (21,054,776)</u></u>

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

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 EM 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 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

The City reports the following major proprietary funds:

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. The General Employees' Retirement System VEBA was liquidated in April 2013.

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, 2014, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2013.

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.

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 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the City of Pontiac totaled approximately \$663 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 and .5000 mills for senior activities. This resulted in \$6.90 million for operating, \$1.73 million for refuse collection and disposal, \$0.86 million for capital improvement and \$0.31 million for senior activities. 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 \$50,000 for buildings and building improvements, \$25,000 for land improvements, \$20,000 for vehicles and \$10,000 for all other assets and have an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

	Years
Streets and bridges	20-50
Land improvements	10-45
Building and improvements	5-50
Machinery and equipment	5-20
Vehicles	6
Furniture and fixtures	5-10
Water and sewer systems	25-100
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. The City funded the liability in the sick and vacation internal service fund through contributions from the general fund and court fund in the prior year.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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. Effective September 1, 2013 the City is not responsible for funding the cost of retiree healthcare for a two-year period or until the end of receivership, whichever is longer. Retiree healthcare costs incurred during this time period are reimbursed to the City by the retirees.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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.

3. FUND DEFICITS

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

Tax Increment Finance Authority - District 2	\$	568,919
Tax Increment Finance Authority - District 3		125,938

Tax Increment Finance Authority - Districts 2 and 3 - The deficit in the TIFA Funds is due to the General Fund paying TIFA 2007C bond debt service due in fiscal year ending 6/30/14 on behalf of the TIFA Funds. The General Fund was obligated to pay the debt service under a financial guarantee agreement on the bonds. The TIFA Funds are required to reimburse the General Fund with future revenue and are required to report this obligation under GASB 70 until payment is made or the liability is legally released. The TIFA Funds do not have a current available resource to reimburse the General Fund which resulted in the deficit. The TIFA Funds will continue to have this deficit until a future revenue source becomes available. The City does not anticipate an available revenue source in the near future.

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, 2014:

	Primary Government	Component Units	Total
Statement of net position			
Cash	\$ 20,956,680	\$ 844,081	\$ 21,800,761
Restricted cash and investments	1,405,504	-	1,405,504
Statement of fiduciary net position			
Cash	8,391,559	-	8,391,559
Investments	766,690,991	-	766,690,991
Total	\$ 797,444,734	\$ 844,081	\$ 798,288,815
Bank deposits (demand accounts and certificates of deposit)			\$ 24,896,610
Investments in securities, mutual funds and similar vehicles:			
General Employees' Retirement System			490,283,533
Police and Fire Retirement System			244,202,387
Police and Fire Retirement System VEBA			38,902,587
Cash on hand			3,698
			<u>\$ 798,288,815</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.

The City has designated 15 banks for the deposit of its funds. The City deposits and investment policies are in accordance with statutory authority.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 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 and Police and Fire Retirement System VEBA balances as of December 31, 2013 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 - State law does not require and the City does not have a deposit policy for custodial credit risk. At year end, the City had \$24,896,610 of bank deposits (certificates of deposit, checking, and savings accounts). \$25,865,376 of the City's bank balance of \$26,405,905 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 Retirement System does not have a deposit policy for custodial credit risk. At year end, the Retirement System had \$5,740,389 in bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At December 31, 2013, the Retirement System had bank deposits totaling \$5,990,389 per the Retirement System's accounting records. The Retirement System 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.

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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, 2014, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

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 states that no more than 25 percent of the portfolio be invested beyond 12 month, and the weighted average maturity of the portfolio shall never exceed one year. 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	\$ 4,330,633	2.25 years
Government mortgage-backed securities	18,138,661	2.26 years
Government bonds	980,776	5.89 years
Corporate and other bonds	18,884,332	6.21 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	\$ 9,088,021	1.91 years
Commercial mortgage-backed securities	6,358,096	2.6 years
Corporate and other bonds	45,035,655	4.44 years
Government agency notes and debentures	11,845,369	21.54 years
U.S. governmental issued commercial mortgage-backed securities	345,916	2.16 years
U.S. governmental mortgage-backed securities	25,541,692	3.93 years
Nongovernment-backed CMOs	147,134	1.26 years
Short-term investment funds	24,873,751	Unavailable

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	\$ 645,484	6.23 years
Corporate bonds	2,212,459	6.70 years
Collateralized mortgage obligations	687,833	29.36 years
Private placement	52,045	9.04 years
Foreign bonds	84,626	6.49 years
U.S. government:		
Agency	400,779	4.50 years
Mortgage-backed securities	2,807,900	27.28 years
Treasuries, notes and bonds	1,668,190	2.35 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
Corporate bonds	\$ 1,661,408	AA	S&P
Corporate bonds	15,215,544	A	S&P
Corporate bonds	2,007,380	BBB	S&P
Short-term investment funds	5,436,669	Unrated	n/a
Government agencies	4,330,633	AA	S&P
Government mortgage-backed securities	668,554	Unrated	n/a

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	\$ 3,087,761	Aaa	Moody's
Asset-backed securities	1,376,533	Aa	Moody's
Asset-backed securities	585,364	A	Moody's
Asset-backed securities	4,038,363	Unrated	n/a
Commercial mortgage-backed securities	5,050,898	Aaa	Moody's
Commercial mortgage-backed securities	585,434	Aa	Moody's
Commercial mortgage-backed securities	186,839	Baa	Moody's
Commercial mortgage-backed securities	534,925	Unrated	n/a
Corporate bonds	1,388,515	Aa	Moody's
Corporate bonds	7,143,967	A	Moody's
Corporate bonds	15,198,227	Baa	Moody's
Corporate bonds	753,775	Ba	Moody's
Corporate bonds	10,795,303	B	Moody's
Corporate bonds	8,981,838	Caa	Moody's
Corporate bonds	774,032	Unrated	n/a
Governmental agency notes and debentures	9,571,014	Aaa	Moody's
Governmental agency notes and debentures	2,274,356	Aa	Moody's
U.S. governmental agency mortgage-backed securities	29,951	Unrated	n/a
Nongovernment-backed CMOs	12,973	A	Moody's
Nongovernment-backed CMOs	134,161	Unrated	n/a
Short-term investment funds	24,873,751	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	\$ 207,110	AAA	S&P
Asset-backed	233,325	AA	S&P
Asset-backed	205,049	Not rated	n/a
Corporate bonds	58,820	AA	S&P
Corporate bonds	693,108	A	S&P
Corporate bonds	1,460,531	BBB	S&P
Collateralized mortgage obligations	92,057	AAA	S&P
Collateralized mortgage obligations	130,095	AA	S&P
Collateralized mortgage obligations	80,149	A	S&P
Collateralized mortgage obligations	266,669	BBB	S&P
Collateralized mortgage obligations	43,474	BBB	S&P
Collateralized mortgage obligations	75,389	Not rated	n/a
Private placement	52,045	A	S&P
Foreign bonds	39,948	A	S&P
Foreign bonds	44,678	BBB	S&P
U.S. government:			
Agency	400,779	AA	S&P
Mortgage-backed securities	2,807,900	Not rated	n/a
Treasuries, notes and bonds	1,668,190	Not rated	n/a

Concentration of Credit Risk

City - The City's investment policy states that no more than 25 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Foreign Currency Risk

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

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

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

General Employees' Retirement System - The pension system restricts the amount of investments in foreign currency-denominated investments to 15 percent of total pension system investments. At year end December 31, 2013, the only type of investments which were subject to foreign currency risk were equity investments. The total amount of equity investments which were subject to foreign currency risk at year end was \$17,586,715. At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation gain of \$214,179 related to equity investments.

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

5. RECEIVABLES

Receivables as of year end for the City's governmental and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-type Activities
Taxes	\$ 12,798,493	\$ -
Accounts	1,487,315	3,945
Intergovernmental	2,873,932	-
Less allowance for doubtful accounts	(8,857,696)	-
Net receivables	<u>\$ 8,302,044</u>	<u>\$ 3,945</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 20,802,639	\$ -	\$ (189,166)	\$ 20,613,473
Construction in progress	5,188,078	1,020,294	(5,824,347)	384,025
Total capital assets not being depreciated	<u>25,990,717</u>	<u>1,020,294</u>	<u>(6,013,513)</u>	<u>20,997,498</u>
Capital assets being depreciated:				
Streets and bridges	72,969,044	6,194,591	-	79,163,635
Buildings and improvements	46,359,014	-	-	46,359,014
Machinery and equipment	6,112,527	15,785	-	6,128,312
Vehicles	714,738	-	(59,695)	655,043
Office furnishings	6,669,499	42,928	(3,050)	6,709,377
Land improvements	7,230,424	-	(19,400)	7,211,024
Total capital assets being depreciated	<u>140,055,246</u>	<u>6,253,304</u>	<u>(82,145)</u>	<u>146,226,405</u>
Less accumulated depreciation for:				
Streets and bridges	(30,493,826)	(3,548,165)	-	(34,041,991)
Buildings and improvements	(31,337,744)	(1,084,043)	-	(32,421,787)
Machinery and equipment	(5,706,747)	(66,328)	-	(5,773,075)
Vehicles	(421,916)	(58,565)	59,695	(420,786)
Office furnishings	(6,390,694)	(88,939)	3,050	(6,476,583)
Land improvements	(7,198,603)	(31,821)	19,400	(7,211,024)
Total accumulated depreciation	<u>(81,549,530)</u>	<u>(4,877,861)</u>	<u>82,145</u>	<u>(86,345,246)</u>
Total capital assets being depreciated, net	<u>58,505,716</u>	<u>1,375,443</u>	<u>-</u>	<u>59,881,159</u>
Governmental activities capital assets, net	<u>\$ 84,496,433</u>	<u>\$ 2,395,737</u>	<u>\$ (6,013,513)</u>	<u>\$ 80,878,657</u>

Beginning balances of the governmental activities capital assets were restated. See Note 19 for additional detail.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Parking fund				
Capital assets not being depreciated -				
Land	\$ 3,166,454	\$ -	\$ -	\$ 3,166,454
Capital assets being depreciated:				
Buildings and improvements	34,298,064	-	(724,751)	33,573,313
Machinery and equipment	78,976	-	(78,976)	-
Vehicles	14,014	-	(14,014)	-
Land improvements	646,676	-	(646,676)	-
Traffic signs	57,858	-	(676)	57,182
Total capital assets being depreciated	35,095,588	-	(1,465,093)	33,630,495
Less accumulated depreciation for:				
Buildings and improvements	(24,722,082)	(532,744)	724,751	(24,530,075)
Machinery and equipment	(78,141)	(835)	78,976	-
Vehicles	(14,014)	-	14,014	-
Land improvements	(646,676)	-	646,676	-
Traffic signs	(57,858)	-	676	(57,182)
Total accumulated depreciation	(25,518,771)	(533,579)	1,465,093	(24,587,257)
Total capital assets being depreciated, net	9,576,817	(533,579)	-	9,043,238
Parking fund capital assets, net	\$ 12,743,271	\$ (533,579)	\$ -	\$ 12,209,692
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	\$ 15,029,881	\$ (533,579)	\$ (2,286,610)	\$ 12,209,692

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
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	(427,674)	(285,116)	-	(712,790)
Net capital assets	<u>\$ 5,274,659</u>	<u>\$ (285,116)</u>	<u>\$ -</u>	<u>\$ 4,989,543</u>

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

Depreciation of governmental activities by function	
General government	\$ 1,200,541
Public safety	88,308
Public works	3,584,420
Community and human resources	<u>4,592</u>
Total depreciation expense - governmental activities	<u>\$ 4,877,861</u>
Depreciation of business-type activities by function	
Parking	<u>\$ 533,579</u>

Construction Commitments - At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Governmental activities - Featherstone Bridge	<u>\$ 2,691</u>	<u>\$ 137,864</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2014, amounts due to/due from other funds were as follows:

	Due From Other Funds	Due To Other Funds
General fund	\$ 98,003	\$ -
Major streets	274,664	-
Nonmajor governmental funds	-	372,667
	<u>\$ 372,667</u>	<u>\$ 372,667</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, 2014, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 828,323	\$ 424,486
Major streets	-	453,275
Nonmajor governmental funds	877,761	478,657
Parking fund	255,000	-
Golf course fund	-	604,666
Internal service funds	212,641	212,641
	<u>\$ 2,173,725</u>	<u>\$ 2,173,725</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.

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					
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	\$ 7,947	\$ -	\$ (2,649)	\$ 5,298	\$ 2,649
2007C TIFA Bond Financial Guarantee	-	8,532,726	(775,001)	7,757,725	826,784
Compensated absences, separation and longevity accrual	547,803	170,258	(227,638)	490,423	143,442
Landfill closure and postclosure costs	1,838,412	-	-	1,838,412	-
Total governmental activities	\$ 2,394,162	\$ 8,702,984	\$ (1,005,288)	\$ 10,091,858	\$ 972,875

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component units					
Revenue bonds:					
\$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%	\$ 27,230,000	\$ -	\$ (1,130,000)	\$ 26,100,000	\$ 1,175,000
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	177,529	-	(59,177)	118,352	59,176
RLJ II MTT property tax refund	-	74,736	(24,912)	49,824	24,912
Total component units	\$ 27,407,529	\$ 74,736	\$ (1,214,089)	\$ 26,268,176	\$ 1,259,088

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
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	1,360,000	982,762
2020-2024	8,440,000	3,903,410
2025-2029	8,030,000	1,857,664
2030-2031	3,320,000	223,426
	<u>\$ 26,100,000</u>	<u>\$ 11,377,712</u>

Compensated absences and separation accruals in governmental activities of \$490,423 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.

Financial Guarantee

In 2007, the City guaranteed the 10-year, \$1.315 million TIFA 2 2007C series, the 17-year, \$3.28 million TIFA 2 2007C series, and the 24-year, \$24.45 million TIFA 3 2007C series revenue bond issuances of the Tax Increment Finance Authority (TIFA), a legally separate authority located within the City, in accordance with a resolution adopted by the City. The bonds mature annually through May 1, 2017, May 1, 2024 and May 1, 2031, respectively, with semiannual interest payments. In the event that the TIFA is unable to make a payment, the City is required to make that payment. As a result of declining revenues that occurred in 2014 and prior, the City determined in fiscal year 2014 that it was more likely than not that the City would be required to pay a percentage of the remaining portion of the TIFA's debt service payments based on this guarantee. During fiscal year 2014, total TIFA debt service amounted to \$2,336,750 of which \$775,001 was paid by the City and \$1,561,749 was paid by the TIFA. The amount of the remaining financial guarantee liability recognized is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

The agreement also provides for the TIFA to reimburse the City for any debt service amounts paid for by the City. Accordingly, the TIFA has a liability recorded in the amount of \$775,001 at June 30, 2014.

The liability recognized for nonexchange financial guarantees by the City at June 30, 2014, is as follows:

Beginning Balance	Additions	Reductions	Ending Balance
\$ -	\$ 9,307,727	\$ 775,001	\$ 8,532,726

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in these financial statements. As of June 30, 2014, \$19,965,000 of bonds outstanding are considered defeased.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

9. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	Governmental Activities
Cash and investments -	
Landfill closure and postclosure costs	\$ 1,405,504
Deposits held by State for landfill postclosure care	<u>1,109,525</u>
Total restricted assets	<u>\$ 2,515,029</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, 2014 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, 2014. 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, 2014, investments of \$2,515,029 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 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. For the entire 2014 fiscal year, the City was fully insured for employee medical and dental and workers' compensation insurance. The City still records an estimated liability for medical and dental and workers' compensation claims that have been reported but are open at the end of the fiscal year, as well as those that have not yet been reported. These liabilities are recorded in internal service funds. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation	
	2014	2013	2014	2013
Unpaid claims -				
Beginning of year	\$ 2,200,000	\$ 2,800,000	\$ 1,925,000	\$ 1,500,000
Incurred claims	264,510	(89,502)	10,151	1,156,127
Claim payments	(614,510)	(510,498)	(185,151)	(731,127)
Unpaid claims -				
End of year	<u>\$ 1,850,000</u>	<u>\$ 2,200,000</u>	<u>\$ 1,750,000</u>	<u>\$ 1,925,000</u>
			Medical and Dental Claims	
			2014	2013
Unpaid claims -				
Beginning of year		\$ 475,000	\$ 592,000	
Incurred claims		1,135,005	9,143,221	
Claim payments		(1,600,005)	(9,260,221)	
Unpaid claims -				
End of year		<u>\$ 10,000</u>	<u>\$ 475,000</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, 2014 was \$0. The annual required contribution was determined as part of actuarial valuations at December 31, 2010 and December 31, 2011, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.6 to 9.4 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 five-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, 2012, all assumptions have remained consistent.

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2012	\$ -	100.0%	\$ -
2013	-	100.0%	-
2014	-	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
12/31/12	\$ 369,621,671	\$ 247,968,743	\$ (121,652,928)	149.1%	\$ 2,742,912	0%

Reserves - As of December 31, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,316,936
Reserve for retired benefit payments	211,570,137

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 and Plan Closure. In 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with the 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.

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, 2011 was recomputed from \$1,449,540 to \$901,797.

Contributions. During 2011, the Retirement System filed a lawsuit against the City to compel them to pay past due contributions. Subsequently, in 2013, the City paid the Retirement System \$2,627,760. A total of \$2,176,867 related to the 2011 and 2012 contributions and the remaining \$450,898 related to a portion of the 2013 contributions (January 1 to June 30, 2013).

Annual required contribution	\$ 901,797
Interest on net pension obligation	34,870
Adjustment to annual required contribution	<u>(48,903)</u>
Net pension cost (expense)	887,764
Contributions made	<u>(1,352,695)</u>
Change in net pension obligation	(464,931)
Net pension obligation, beginning of year	<u>464,931</u>
Net pension obligation, end of year	<u>\$ -</u>

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2012	\$ 906,324	0.0%	\$ 1,730,490
2013	911,803	238.9%	464,931
2014	887,764	152.4%	-

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	\$ 222,886,057	\$ 251,398,635	\$ 28,512,578	88.7%	\$ -	n/a

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Reserves - As of December 31, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,795,844
Reserve for retired benefit payments	227,179,600

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 \$2,460,261. The current year contribution was calculated based on covered payroll of \$103,269, resulting in an employer contribution of \$4,327 and employee contributions of \$2,308.

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.

15. 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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. During the City's fiscal year ended June 30, 2014, the City did not make any contributions into the Trust, which is reported in the City's financial statements as a pension and other postemployment benefit trust fund. During the City's fiscal year ended June 30, 2014, the City withdrew \$2,729,815 from the Trust to cover \$1,591,101 of current year health benefits and \$564,695 of prior year health benefits provided to members of the Police and Fire Retirement System VEBA. The remaining \$574,019 withdrawn from the Trust was used for current year health benefits provided to police and fire retirees not included in the Police and Fire Retirement System VEBA.

During 2011, the Trust filed a lawsuit against the plan sponsor to compel payment on past due contributions. In March 2013, a settlement agreement was reached between the Trust and the plan sponsor and the City remitted a payment for past due contributions in the amount of \$3,243,232. Contributions for 2012 are currently the subject of a separate lawsuit. No contributions were made for 2013. As these two years' contributions may not be forthcoming, the contributions have not been reflected in the Trust's 2013 financial statements.

Funding Progress. For the year ended June 30, 2014, 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 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	\$ 5,415,079
Interest on net OPEB obligation	625,775
Adjustment to annual required contribution	<u>(360,250)</u>
Net OPEB cost (expense)	5,680,604
Contributions made	(1,591,101)
Amounts withdrawn from Trust	<u>2,729,815</u>
Change in net OPEB obligation	6,819,318
Net OPEB obligation, beginning of year	<u>12,515,508</u>
Net OPEB obligation, end of year	<u>\$ 19,334,826</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
2012	3/31/2012	\$ 4,495,069	0.00%	\$ 13,723,926
2013	3/31/2012	4,694,054	125.74%	12,515,508
2014	12/31/2012	5,680,604	28.01%	19,334,826

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	\$ 33,094,620	\$ 109,631,892	\$ 76,537,272	30.19%	\$ -	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 December 31, 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 5.6 percent medical care inflation rate assumption related to healthcare cost increases. The actuarial value of assets is set to equal the smoothed market value as of December 31, 2012. The UAAL is being amortized as a level dollar of projected payroll on open basis. The remaining amortization period at December 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.

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

Plan Description. The City provides medical, prescription, and core dental benefits for General retirees and 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, 2014, 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	1,405,995
Adjustment to annual required contribution	<u>(541,767)</u>
Net OPEB cost (expense)	10,923,035
Contributions made	<u>(4,326,455)</u>
Change in net OPEB obligation	6,596,580
Net OPEB obligation, beginning of year, as restated	<u>28,119,893</u>
Net OPEB obligation, end of year	<u>\$ 34,716,473</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
2012	12/31/2009	\$ 3,625,712	73.03%	\$ 2,026,895
* 2013	12/31/2012	10,778,592	16.47%	28,119,893
2014	12/31/2012	10,923,035	39.61%	34,716,473

* During fiscal year 2013, the General Employees' Retire Health and Trust Benefits Trust was closed and all retirees were transferred to the City's OPEB Plan.

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

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

	Plan Net Position as of December 31, 2013				
	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	\$ 5,218	\$ 5,990,389	-	\$ 701,909	\$ 6,697,516
Investments at fair value:					
Money market funds	27,279,777	5,444,200	-	-	32,723,977
U.S. government obligations and agencies	11,845,369	12,670,720	-	2,068,969	26,585,058
Mortgage-backed securities	-	-	-	2,807,900	2,807,900
Collateralized mortgage obligations	-	-	-	687,833	687,833
U.S government mortgage-backed securities	25,887,608	18,138,661	-	-	44,026,269
Commercial mortgage pools	6,358,096	-	-	-	6,358,096
Asset-backed securities	9,088,021	-	-	645,484	9,733,505
Corporate and other bonds	24,113,642	-	-	2,212,459	26,326,101
High-yield bonds	20,922,013	-	-	-	20,922,013
Foreign bonds and notes	-	-	-	84,626	84,626
Limited partnerships	38,336,949	22,698,857	-	-	61,035,806
Domestic stock	-	137,620,865	-	-	137,620,865
Foreign stock	-	12,426,476	-	-	12,426,476
Bonds	-	18,884,332	-	-	18,884,332
Short-term investments	-	-	-	927,134	927,134
Foreign equity mutual fund	-	-	-	5,980,582	5,980,582
Equities	315,461,261	-	-	19,807,824	335,269,085
Private equities	10,985,579	-	-	2,537,302	13,522,881
Real estate investment trusts	-	-	-	388,520	388,520
Real estate limited partnerships	-	10,327,887	-	-	10,327,887
Private placement bonds	-	-	-	52,045	52,045
Accrued interest and dividends receivable	1,231,940	478,370	-	62,702	1,773,012
Due from broker	-	-	-	38,343	38,343
Other receivables	3,312	-	-	-	3,312
Due from Police and Fire Retirement System VEBA	-	86,698	-	-	86,698
Total assets	491,518,785	244,767,455	-	39,003,632	775,289,872

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CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Plan Net Position as of December 31, 2013					
	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	\$ -	\$ -	\$ -	\$ 457,102	\$ 457,102
Due to Police and Fire Retirement System	-	-	-	86,698	86,698
Accounts payable and other	1,045,898	247,250	-	409	1,293,557
Total liabilities	1,045,898	247,250	-	544,209	1,837,357
Net position held in trust for pension and other employee benefits	\$ 490,472,887	\$ 244,520,205	\$ -	\$ 38,459,423	\$ 773,452,515

concluded.

Changes in Plan Net Position for the Year Ended December 31, 2013					
	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	\$ 9,168,565	\$ 4,348,466	\$ -	\$ 660,657	\$ 14,177,688
Net increase in fair value	85,344,964	33,737,658	-	6,542,336	125,624,958
Less investment related expenses	(2,726,683)	(1,042,881)	-	(98,590)	(3,868,154)
Net investment income	91,786,846	37,043,243	-	7,104,403	135,934,492
Contributions:					
Employer	-	450,898	-	-	450,898
Employee	-	-	-	754,981	754,981
Total contributions	-	450,898	-	754,981	1,205,879
Miscellaneous and litigation revenue	25,795	27,835	-	4,694	58,324
Total additions	91,812,641	37,521,976	-	7,864,078	137,198,695

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CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Changes in Plan Net Position for the Year Ended December 31, 2013					
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Deductions					
Retirees' pension benefits	23,946,914	19,650,749	-	-	43,597,663
Retiree health benefit payments	-	-	301,833	1,825,403	2,127,236
Administrative expenses	921,629	289,533	-	101,455	1,312,617
Total deductions	24,868,543	19,940,282	301,833	1,926,858	47,037,516
Change in net position	66,944,098	17,581,694	(301,833)	5,937,220	90,161,179
Net position:					
Beginning of year	423,528,789	226,938,511	301,833	32,522,203	683,291,336
End of year	<u>\$ 490,472,887</u>	<u>\$ 244,520,205</u>	<u>\$ -</u>	<u>\$ 38,459,423</u>	<u>\$ 773,452,515</u>

concluded.

18. 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.

19. RESTATEMENTS

Beginning net position of governmental activities was decreased by \$21,394,584, to remove capital assets that were determined not to belong to the City. The effect of this restatement on the change in net position for governmental activities for the fiscal year ended June 30, 2013 would have been \$4,190,610.

In addition, beginning net position of governmental activities was increased by \$9,665,608, to correct an error made in the prior year when calculating the net other postemployment benefit obligation caused by the General Employees' Retiree and Insurance Benefits Trust and the City of Pontiac Retiree Health Care plans combining and the timing of the actuarial valuations used to calculate the liability. The effect of this restatement on the change in net position for governmental activities for the fiscal year ended June 30, 2013 would have been \$9,665,608.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

20. SUBSEQUENT EVENTS

The City of Pontiac was awarded an unfavorable decision by the 6th District Court of Appeals in litigation regarding retiree health insurance and the case has been remanded to the District Court for further review. The City had previously won a decision in the District Court that allowed the City to suspend providing OPEB for two years or until the end of receivership, whichever is longer. If the City is ordered to reinstate OPEB benefits, the City will face an immediate and significant budget deficit as the City will be unable to generate revenue necessary to balance the budget. Current actuarial reports assume that the City is fully responsible for providing OPEB.

21. 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	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid items	\$ 864,449	\$ -	\$ -	\$ 43,766	\$ 908,215
Restricted					
Roads	-	2,849,200	-	1,731,165	4,580,365
Drug enforcement	-	-	-	275,016	275,016
Capital projects	-	-	-	430,321	430,321
Landfill postclosure costs	-	-	3,747,112	-	3,747,112
Drains	-	-	-	546,211	546,211
Senior activities	-	-	-	994,061	994,061
Community development	-	-	-	16,238	16,238
District court	-	-	-	40,380	40,380
Cable television	-	-	-	1,081,439	1,081,439
Total restricted	-	2,849,200	3,747,112	5,114,831	11,711,143
Unassigned (deficit)	4,267,040	-	-	(335,485)	3,931,555
Total fund balances	\$ 5,131,489	\$ 2,849,200	\$ 3,747,112	\$ 4,823,112	\$ 16,550,913

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)
12/31/2007	\$ 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%
12/31/2012	369,621,671	247,968,743	(121,652,928)	149.1%	2,742,912	0.0%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
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%
2014	12/31/2011	-	100.0%

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:

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	2.0% to 2.5% (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	222,886,057	251,398,635	28,512,578	88.7%	-	n/a

* March 1, 2012 valuation used the funding value of assets as of December 31, 2011.

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
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%
2014	12/31/2012	901,797	150.0%

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	30 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
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)
12/31/2007	\$ 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
12/31/2012	33,094,620	109,631,892	76,537,272	30.2%	-	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 *
2009	12/31/2006	\$ 5,594,865	\$ 2,678,324
2010	12/31/2007	6,780,645	3,158,681
2011	12/31/2008	6,598,669	-
2012	12/31/2009	6,570,422	3,243,332 **
2013	12/31/2010	5,663,685	-

* 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 relate to contributions due during 2011 and 2010 that were received in 2012. Contributions for 2012 are currently in litigation.

*** Beginning with the contribution required for the fiscal year ended June 30, 2010, contributions based on a 5 percent investment rate of return have been reported versus the previous rate of 7.5 percent.

Amortization method	Level dollar
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	5.6%

* 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	-120.5%
2014	12/31/2012	10,058,807	0.0%

* During 2013, a revised actuarial valuation was performed due to the General Employees' Retiree and Insurance Benefits Trust and the City of Pontiac Retiree Health Care plans combining. See Note 19.

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 16,295,316	\$ 16,059,541	\$ 17,155,854	\$ 1,096,313
Licenses and permits	2,898,200	2,873,500	2,598,936	(274,564)
Federal revenue	25,000	-	5,391	5,391
State revenue	9,006,266	9,242,041	9,193,167	(48,874)
Contributions from local units	-	-	5,246	5,246
Charges for services	1,058,382	1,050,182	1,145,316	95,134
Interest	-	-	9	9
Other	1,107,016	1,380,070	1,116,105	(263,965)
Total revenues	30,390,180	30,605,334	31,220,024	614,690
Expenditures				
Current:				
General government	3,838,801	3,759,992	3,353,452	(406,540)
Public safety	21,205,364	21,423,274	20,282,336	(1,140,938)
Public works	1,466,005	1,652,220	1,577,742	(74,478)
Community development	361,610	1,254,111	1,204,754	(49,357)
Recreation	282,828	276,282	159,044	(117,238)
General and special programs	2,150,000	2,187,081	790,127	(1,396,954)
Total expenditures	29,304,608	30,552,960	27,367,455	(3,185,505)
Revenues over expenditures	1,085,572	52,374	3,852,569	3,800,195
Other financing sources (uses)				
Transfers in	245,867	848,713	828,323	(20,390)
Transfers out	(1,331,082)	(880,000)	(424,486)	455,514
Total other financing sources (uses)	(1,085,215)	(31,287)	403,837	435,124
Net change in fund balance	357	21,087	4,256,406	4,235,319
Fund balance, beginning of year	875,083	875,083	875,083	-
Fund balance, end of year	\$ 875,440	\$ 896,170	\$ 5,131,489	\$ 4,235,319

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Major Streets Special Revenue Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 3,140,380	\$ 3,140,380	\$ 3,377,581	\$ 237,201
Other	-	-	4,738	4,738
Total revenues	3,140,380	3,140,380	3,382,319	241,939
Expenditures				
Public works	3,150,485	3,160,540	1,905,267	(1,255,273)
Revenue under expenditures	(10,105)	(20,160)	1,477,052	1,497,212
Other financing uses				
Transfers out	(471,100)	(453,275)	(453,275)	-
Net change in fund balance	(481,205)	(473,435)	1,023,777	1,497,212
Fund balance, beginning of year	1,825,423	1,825,423	1,825,423	-
Fund balance, end of year	\$ 1,344,218	\$ 1,351,988	\$ 2,849,200	\$ 1,497,212

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Sanitation Special Revenue Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 1,336,118	\$ 1,336,118	\$ 1,338,490	\$ 2,372
Charges for services	2,800,000	2,800,000	3,282,665	482,665
Interest	-	-	17,315	17,315
Total revenues	4,136,118	4,136,118	4,638,470	502,352
Expenditures				
Public works	4,064,000	4,064,000	3,482,209	(581,791)
Net change in fund balance	72,118	72,118	1,156,261	1,084,143
Fund balance, beginning of year	2,590,851	2,590,851	2,590,851	-
Fund balance, end of year	\$ 2,662,969	\$ 2,662,969	\$ 3,747,112	\$ 1,084,143

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 Emergency Manager of the City of the Pontiac adopted the 2013-2014 fiscal year budgets for the various funds by function. City officials responsible for the expenditures authorized in the budget may expend City funds up to, but not to exceed, the total appropriated authorized for each function.

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.

During the year, the City did not incur expenditures that were in excess of the amounts budgeted.



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COMBINING FUND STATEMENTS

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2014

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Assets				
Cash and cash equivalents	\$ 1,597,095	\$ -	\$ 173,661	\$ 546,381
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Due from other governments	163,307	-	-	-
Prepays	-	-	43,766	-
Total assets	\$ 1,760,402	\$ -	\$ 217,427	\$ 546,381
Liabilities				
Accounts payable	\$ 28,491	\$ -	\$ 11,565	\$ -
Accrued wages	746	-	35,443	-
Due to other governments	-	-	73,790	170
Due to other funds	-	-	-	-
Deposits payable	-	-	12,483	-
Total liabilities	29,237	-	133,281	170
Deferred inflows of resources				
Unavailable revenue	-	-	-	-
Fund balances				
Nonspendable	-	-	43,766	-
Restricted	1,731,165	-	40,380	546,211
Unassigned (deficit)	-	-	-	-
Total fund balances (deficit)	1,731,165	-	84,146	546,211
Total liabilities, deferred inflows of resources and fund balances	\$ 1,760,402	\$ -	\$ 217,427	\$ 546,381



Special Revenue Funds					Capital Projects
Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Cable Fund	Capital Improvement
\$ 16,238	\$ 1,061,571	\$ -	\$ 275,016	\$ 1,045,996	\$ 596,376
-	-	-	-	37,783	-
-	1,601	-	-	-	4,985
-	-	98,179	-	-	-
-	-	-	-	-	-
<u>\$ 16,238</u>	<u>\$ 1,063,172</u>	<u>\$ 98,179</u>	<u>\$ 275,016</u>	<u>\$ 1,083,779</u>	<u>\$ 601,361</u>
\$ -	\$ 8,208	\$ -	\$ -	\$ 336	\$ -
-	2,352	175	-	2,004	-
-	56,850	-	-	-	166,055
-	-	98,003	-	-	-
-	100	-	-	-	-
-	67,510	98,178	-	2,340	166,055
-	1,601	60,822	-	-	4,985
-	-	-	-	-	-
16,238	994,061	-	275,016	1,081,439	430,321
-	-	(60,821)	-	-	-
<u>16,238</u>	<u>994,061</u>	<u>(60,821)</u>	<u>275,016</u>	<u>1,081,439</u>	<u>430,321</u>
<u>\$ 16,238</u>	<u>\$ 1,063,172</u>	<u>\$ 98,179</u>	<u>\$ 275,016</u>	<u>\$ 1,083,779</u>	<u>\$ 601,361</u>

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CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Capital Projects		Total
	ML King Construction	Clinton River Linear Park Trail	
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 5,312,334
Accounts receivable	-	-	37,783
Taxes receivable	-	-	6,586
Due from other governments	-	274,664	536,150
Prepays	-	-	43,766
Total assets	\$ -	\$ 274,664	\$ 5,936,619
Liabilities			
Accounts payable	\$ -	\$ -	\$ 48,600
Accrued wages	-	-	40,720
Due to other governments	-	-	296,865
Due to other funds	-	274,664	372,667
Deposits payable	-	-	12,583
Total liabilities	-	274,664	771,435
Deferred inflows of resources			
Unavailable revenue	-	274,664	342,072
Fund balances			
Nonspendable	-	-	43,766
Restricted	-	-	5,114,831
Unassigned (deficit)	-	(274,664)	(335,485)
Total fund balances (deficit)	-	(274,664)	4,823,112
Total liabilities, deferred inflows of resources and fund balances	\$ -	\$ 274,664	\$ 5,936,619

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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, 2014

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Revenues				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 85
Federal revenue	-	-	-	-
State revenue	1,134,924	189,554	205,349	-
Fines and forfeitures	-	-	1,596,387	-
Interest revenue	-	-	3,001	-
Other	-	-	257,523	-
Total revenues	1,134,924	189,554	2,062,260	85
Expenditures				
Current expenditures:				
General government	-	-	-	-
District court	-	-	2,368,497	-
Public safety	-	-	-	-
Public works and utilities	609,560	-	-	43,675
Community development	-	-	-	-
Community and human services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	609,560	-	2,368,497	43,675
Revenues over (under) expenditures	525,364	189,554	(306,237)	(43,590)
Other financing sources (uses)				
Transfers in	423,100	-	424,486	-
Transfers out	-	(189,554)	(34,103)	-
Total other financing sources (uses)	423,100	(189,554)	390,383	-
Net change in fund balances	948,464	-	84,146	(43,590)
Fund balances (deficit), beginning of year	782,701	-	-	589,801
Fund balances (deficit), end of year	\$ 1,731,165	\$ -	\$ 84,146	\$ 546,211



Special Revenue Funds					Capital Projects
Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Cable Fund	Capital Improvement
\$ -	\$ 263,016	\$ -	\$ -	\$ -	\$ 743,798
16,238	-	281,858	-	-	-
-	-	-	-	-	-
-	-	-	34,982	-	-
-	-	-	-	-	-
-	15,220	-	-	138,309	-
<u>16,238</u>	<u>278,236</u>	<u>281,858</u>	<u>34,982</u>	<u>138,309</u>	<u>743,798</u>
-	-	-	-	118,368	-
-	-	-	-	-	-
-	-	-	25,771	-	-
-	-	-	-	-	-
-	-	342,679	-	-	-
-	356,640	-	-	-	-
-	-	-	-	-	457,907
<u>-</u>	<u>356,640</u>	<u>342,679</u>	<u>25,771</u>	<u>118,368</u>	<u>457,907</u>
<u>16,238</u>	<u>(78,404)</u>	<u>(60,821)</u>	<u>9,211</u>	<u>19,941</u>	<u>285,891</u>
-	-	-	-	-	-
-	-	-	-	-	(255,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(255,000)</u>
16,238	(78,404)	(60,821)	9,211	19,941	30,891
-	1,072,465	-	265,805	1,061,498	399,430
<u>\$ 16,238</u>	<u>\$ 994,061</u>	<u>\$ (60,821)</u>	<u>\$ 275,016</u>	<u>\$ 1,081,439</u>	<u>\$ 430,321</u>

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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, 2014

	Capital Projects		Total
	ML King Construction	Clinton River Linear Park Trail	
Revenues			
Taxes and special assessments	\$ -	\$ -	\$ 1,006,899
Federal revenue	524,050	-	822,146
State revenue	-	-	1,529,827
Fines and forfeitures	-	-	1,631,369
Interest revenue	-	-	3,001
Other	-	-	411,052
Total revenues	524,050	-	5,404,294
Expenditures			
Current expenditures:			
General government	-	-	118,368
District court	-	-	2,368,497
Public safety	-	-	25,771
Public works and utilities	-	-	653,235
Community development	-	-	342,679
Community and human services	-	-	356,640
Capital outlay	-	-	457,907
Total expenditures	-	-	4,323,097
Revenues over (under) expenditures	524,050	-	1,081,197
Other financing sources (uses)			
Transfers in	-	30,175	877,761
Transfers out	-	-	(478,657)
Total other financing sources (uses)	-	30,175	399,104
Net change in fund balances	524,050	30,175	1,480,301
Fund balances (deficit), beginning of year	(524,050)	(304,839)	3,342,811
Fund balances (deficit), end of year	\$ -	\$ (274,664)	\$ 4,823,112

concluded.

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2014

	Self-insurance Workers' Compensation	Dental Insurance	Insurance	Employee Sick and Vacation	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,920,734	\$ -	\$ 2,230,446	\$ 490,423	\$ 4,641,603
Accounts receivable	325,295	-	515,513	-	840,808
Prepays	-	-	1,403,746	-	1,403,746
Total assets	2,246,029	-	4,149,705	490,423	6,886,157
Liabilities					
Current liabilities:					
Accounts payable	26,192	-	4,854	-	31,046
Accrued liabilities	1,750,000	-	1,860,000	-	3,610,000
Accrued wages	-	-	807	-	807
Current portion of compensated absences	-	-	-	143,442	143,442
Total current liabilities	1,776,192	-	1,865,661	143,442	3,785,295
Noncurrent liabilities -					
Compensated absences	-	-	-	346,981	346,981
Total liabilities	1,776,192	-	1,865,661	490,423	4,132,276
Net position					
Unrestricted	\$ 469,837	\$ -	\$ 2,284,044	\$ -	\$ 2,753,881

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Net Position
 Internal Service Funds
 For the Year Ended June 30, 2014

	Self-insurance Workers' Compensation	Dental Insurance	Insurance	Employee Sick and Vacation	Total
Operating revenues					
Charges for services	\$ 519,285	\$ -	\$ 4,168,172	\$ -	\$ 4,687,457
Operating expenses					
Insurance	-	-	4,680,664	-	4,680,664
Workers' compensation expense - net of change in liability	82,967	-	-	-	82,967
Total operating expenses	82,967	-	4,680,664	-	4,763,631
Operating income (loss)	436,318	-	(512,492)	-	(76,174)
Other financing sources (uses)					
Transfers in	-	-	212,641	-	212,641
Transfers out	-	(212,641)	-	-	(212,641)
Total other financing sources (uses)	-	(212,641)	212,641	-	-
Change in net position	436,318	(212,641)	(299,851)	-	(76,174)
Net position, beginning of year	33,519	212,641	2,583,895	-	2,830,055
Net position, end of year	\$ 469,837	\$ -	\$ 2,284,044	\$ -	\$ 2,753,881

CITY OF PONTIAC, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2014

	Self-insurance Workers' Compensation	Dental Insurance	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities					
Cash received from interfund services	\$ 193,990	\$ 9,370	\$ 3,695,356	\$ -	\$ 3,898,716
Cash payments for goods and services	(269,031)	(8,195)	(7,151,330)	-	(7,428,556)
Cash payments to employees	-	-	(49,284)	(57,380)	(106,664)
Net cash provided by (used for) operating activities	(75,041)	1,175	(3,505,258)	(57,380)	(3,636,504)
Cash flows from noncapital financing activities					
Transfers in	-	-	212,641	-	212,641
Transfers out	-	(212,641)	-	-	(212,641)
Net cash provided by noncapital financing activities	-	(212,641)	212,641	-	-
Net increase (decrease) in cash and cash equivalents	(75,041)	(211,466)	(3,292,617)	(57,380)	(3,636,504)
Cash and cash equivalents, beginning of year	1,995,775	211,466	5,523,063	547,803	8,278,107
Cash and cash equivalents, end of year	\$ 1,920,734	\$ -	\$ 2,230,446	\$ 490,423	\$ 4,641,603
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 436,318	\$ -	\$ (512,492)	\$ -	\$ (76,174)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities					
Change in:					
Accounts receivable	(325,295)	9,370	(472,816)	-	(788,741)
Prepays	16,883	-	(1,010,665)	-	(993,782)
Accounts payable	(27,947)	(8,195)	(162,749)	-	(198,891)
Accrued liabilities	(175,000)	-	(1,346,323)	-	(1,521,323)
Accrued payroll	-	-	(213)	-	(213)
Compensated absences	-	-	-	(57,380)	(57,380)
Net cash provided by (used for) operating activities	\$ (75,041)	\$ 1,175	\$ (3,505,258)	\$ (57,380)	\$ (3,636,504)

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CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2014

	District Court- Agency	Current Tax Collection	Fire Insurance	Water Resources Commissioner	Total
Assets					
Cash and cash equivalents	\$ 158,659	\$ 29,128	\$ 126,778	\$ 1,379,478	\$ 1,694,043
Liabilities					
Accounts payable	\$ 925	\$ 24,847	\$ -	\$ -	\$ 25,772
Accrued liabilities and other	-	-	126,778	-	126,778
Due to other governments	-	4,281	-	1,379,478	1,383,759
Deposits payable	157,734	-	-	-	157,734
Total liabilities	\$ 158,659	\$ 29,128	\$ 126,778	\$ 1,379,478	\$ 1,694,043

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Component Units

June 30, 2014

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Assets				
Cash and cash equivalents	\$ 131,325	\$ 262,464	\$ 213,266	\$ 607,055
Property taxes receivable - net	1,807	2,061	281	4,149
Total assets	<u>\$ 133,132</u>	<u>\$ 264,525</u>	<u>\$ 213,547</u>	<u>\$ 611,204</u>
Liabilities				
Accounts payable	\$ -	\$ 3,500	\$ -	\$ 3,500
Due to other governments	700,245	384,902	55,947	1,141,094
Total liabilities	<u>700,245</u>	<u>388,402</u>	<u>55,947</u>	<u>1,144,594</u>
Deferred inflows of resources				
Unavailable revenue	1,806	2,061	281	4,148
Fund balances				
Restricted	-	-	157,319	157,319
Unassigned (deficit)	(568,919)	(125,938)	-	(694,857)
Total fund balances (deficit)	<u>(568,919)</u>	<u>(125,938)</u>	<u>157,319</u>	<u>(537,538)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 133,132</u>	<u>\$ 264,525</u>	<u>\$ 213,547</u>	<u>\$ 611,204</u>



Brownfield Redevelopment Authority	Total
\$ 237,026	\$ 844,081
-	4,149
<u>\$ 237,026</u>	<u>\$ 848,230</u>
\$ -	\$ 3,500
10,163	1,151,257
<u>10,163</u>	<u>1,154,757</u>
-	4,148
226,863	384,182
-	(694,857)
<u>226,863</u>	<u>(310,675)</u>
<u>\$ 237,026</u>	<u>\$ 848,230</u>

CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
Component Units
June 30, 2014

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances (deficits) for component units	\$ (568,919)	\$ (125,938)	\$ 157,319	\$ (537,538)
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	-	4,989,543	-	4,989,543
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	1,806	2,061	281	4,148
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.				
	-	724,918	-	724,918
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	(24,095)	(170,439)	-	(194,534)
Bonds payable	(3,440,000)	(22,660,000)	-	(26,100,000)
Property tax settlements	(168,176)	-	-	(168,176)
Net position for component units	<u>\$ (4,199,384)</u>	<u>\$ (17,239,855)</u>	<u>\$ 157,600</u>	<u>\$ (21,281,639)</u>



Brownfield Redevelopment Authority	Total
--	-------

\$ 226,863	\$ (310,675)
------------	--------------

-	4,989,543
---	-----------

-	4,148
---	-------

-	724,918
---	---------

-	(194,534)
---	-----------

-	(26,100,000)
---	--------------

-	(168,176)
---	-----------

<u>\$ 226,863</u>	<u>\$ (21,054,776)</u>
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CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Component Units

For the Year Ended June 30, 2014

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Revenues				
Taxes	\$ (149,980)	\$ 1,194,793	\$ 390,661	\$ 1,435,474
Contributions from primary government	678,479	206,082	-	884,561
Other revenue	38,696	-	-	38,696
Total revenues	567,195	1,400,875	390,661	2,358,731
Expenditures				
Commercial and industrial development	567,195	203,271	221	770,687
Debt service:				
Principal	410,000	720,000	-	1,130,000
Interest and fiscal charges	158,919	1,047,831	-	1,206,750
Total expenditures	1,136,114	1,971,102	221	3,107,437
Revenues over (under) expenditures	(568,919)	(570,227)	390,440	(748,706)
Other financing sources (uses)				
Transfers in	-	246,117	-	246,117
Transfers out	-	-	(246,117)	(246,117)
Total other financing sources (uses)	-	246,117	(246,117)	-
Net change in fund balances	(568,919)	(324,110)	144,323	(748,706)
Fund balances, beginning of year	-	198,172	12,996	211,168
Fund balances (deficit), end of year	\$ (568,919)	\$ (125,938)	\$ 157,319	\$ (537,538)



Brownfield Redevelopment Authority	Total
\$ 220,971	\$ 1,656,445
-	884,561
-	38,696
<u>220,971</u>	<u>2,579,702</u>
14,216	784,903
-	1,130,000
-	1,206,750
<u>14,216</u>	<u>3,121,653</u>
<u>206,755</u>	<u>(541,951)</u>
-	246,117
-	<u>(246,117)</u>
-	-
206,755	(541,951)
<u>20,108</u>	<u>231,276</u>
<u>\$ 226,863</u>	<u>\$ (310,675)</u>

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, 2014

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	\$ (568,919)	\$ (570,227)	\$ 390,440	\$ (748,706)
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)
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.				
	(316)	698	(100)	282
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	410,000	720,000	-	1,130,000
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 deferred loss on refunding	2,391	(32,735)	-	(30,344)
Change in property tax settlements	9,353	-	-	9,353
Change in net position of component units	<u>\$ (147,491)</u>	<u>\$ (167,380)</u>	<u>\$ 390,340</u>	<u>\$ 75,469</u>



Brownfield Redevelopment Authority	Total
--	-------

\$ 206,755	\$ (541,951)
------------	--------------

-	(285,116)
---	-----------

-	282
---	-----

-	1,130,000
---	-----------

-	(30,344)
---	----------

-	9,353
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<u>\$ 206,755</u>	<u>\$ 282,224</u>
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 19, 2014

Transition Advisory Board
Joseph M. Sobota, City Administrator
City Council
City of Pontiac
Pontiac, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2014. Our report includes a reference to other auditors who audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City's financial statements. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-FS-01, -02, and -03 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-FS-04 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Pontiac's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2014

2014-FS-01 - Material Audit Adjustments (repeat finding)

Finding Type. Material weakness in internal control over financial reporting.

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

Condition. During our audit, we identified and proposed an adjustment (which was approved and posted by management) that was material to the City's financial statements. As a result, the classification of the sale of the golf course fund operations was presented in the wrong category of the golf course fund statement of revenues, expenditures and changes in fund net position.

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

Effect. As a result, beginning fund balance in the golf course enterprise fund was understated by approximately \$2,287,000 and the loss on the sale was understated by the same amount.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustment.

View of Responsible Officials. The City properly calculated the loss on the sale of the golf course fixed assets. The loss does reduce fund balance during the year, however, the City made a data entry error to the wrong account classification which reduced fund balance as of the beginning of the year instead of during the year. The auditors proposed entry reclassifies the loss to the proper account classification. The City agrees with and has recorded the correcting entry. The City has procedures in place to review the beginning fund balance for each fund during the review of the draft audited financial statements each year that detects these types of errors. At the time this error was detected, the draft audited financial statements were not available yet. The City will modify its procedures to review beginning fund balances in the general ledger prior to the start of the audit in future years.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2014

2014-FS-02 - Material Prior Period Adjustment

Finding Type. Material weakness in internal control over financial reporting.

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

Condition. Adjustments were needed to beginning net position that were material to the City's government-wide financial statements.

Cause. Internal controls did not detect all adjustments necessary to properly record year-end balances in the prior year.

Effect. As a result, beginning net position of governmental activities was understated by \$9,665,608 related to the net other postemployment benefit obligation.

Recommendation. The necessary adjustments have been made in the accounting records and appropriately presented in the financial statements. Accordingly, no further corrective action is required at this time.

View of Responsible Officials. The City abolished the General Employees' Retirement System (GERS) VEBA as of May 30, 2012. Even though the Trust no longer exists, the City is still required to calculate the other postemployment benefit liability for this group of retirees. At the time the calculation was done, the City had two actuary reports including the GERS retirees. Normally the GERS retirees would only be included in one actuary report but due to the timing of the Trust closing and completion of the actuary reports, they were included in both. The City found the error in the liability calculation during fiscal year 2014 and corrected the balance. This correction only impacts the government-wide statements.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2014

2014-FS-03 - Capital Asset Records (repeat finding)

Finding Type. Material weakness in internal controls over financial reporting.

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

Condition. As a result of the City not maintaining detailed records of capital assets, a material adjustment reducing capital assets by 21,394,584 was made to the beginning balance of net position - investment in capital assets category in the government-wide statements. The remaining \$80,879,000 of capital assets recorded in governmental activities does not have detailed records to support the balance.

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

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

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

View of Responsible Officials. The City has had a material weakness on the capital asset records for at least ten years and needs a physical inventory to get the records accurate. The City has been unable to dedicate resources to creating a detailed listing and correcting the balances. A new capital asset policy was signed by the Emergency Manager on 8/12/13 that states items acquired by the City before July 1, 2013 for which the City does not have adequate detail to support the general ledger shall be removed from the general ledger. During fiscal year 2014, the City identified two road projects that should not be on the fixed asset listing totaling \$21,394,584. The remaining capital asset balance of \$80,879,000 is the result of years of manual historical schedules prepared by former City staff and auditors. Accounting standards recommend a physical inventory annually or at least every few years. The City has not had a physical inventory in over ten years. The estimated cost to have an outside party perform a physical inventory is between \$30 and \$60 thousand dollars. The City will continue to evaluate all significant assets held to determine what will be disposed and sold. After this process, the City will perform a physical inventory.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2014

2013-FS-04 - Court Bonds Payable (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

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

Condition. We requested detail for the bonds payable account in the Court’s agency fund. The Court was able to provide subsidiary records, however, these records did not agree with the amount recorded on the City’s general ledger.

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

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

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

View of Responsible Officials. The City will meet with the court administrator and Chief Judge to review current procedures and the City will make recommendations to address the deficiency of controls.

