

City of Pontiac,  
Michigan



Year Ended  
June 30, 2016

Financial  
Statements

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# CITY OF PONTIAC, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

December 5, 2016

The Honorable Mayor and 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, 2016, 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 VEBA, and Police and Fire Retirement System which represent 99.9%, 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 VEBA, and Police and Fire Retirement System are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System VEBA, and Police and Fire Retirement System 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedules for the general fund, major streets special revenue fund, sanitation special revenue fund, district court special revenue fund and the schedules for the pension and other postemployment benefit plans, as 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 other supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is 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 5, 2016 on our consideration of the City'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'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 (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here and contact City Administration at 248-758-3133 if you have any questions.

### Financial Highlights

· Total net position	\$ 282,184,975
· Change in total net position	(416,363)
· Fund balances, governmental funds	32,430,441
· Change in fund balances, governmental funds	8,185,949
· Unassigned fund balance, general fund	12,004,682
· Change in fund balance, general fund	3,359,271
· Long-term debt outstanding	9,293,651
· Change in long-term debt	(867,323)

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City'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's finances in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the City'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 is improving or deteriorating.

The statement of activities presents information showing how the City'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).

Both of the government-wide financial statements distinguish functions of the City 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 include general government, public safety, public works, community development, community and human services (senior centers), and recreation and culture. The business-type activities of the City include the Phoenix Center (parking fund).

The government-wide financial statements include not only the City 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 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, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains numerous individual governmental funds. Information is presented separately for each major fund (general, major streets, sanitation, and district court) and combined for the nonmajor funds in the government funds balance sheet and in the governmental funds 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 adopts a two-year budget. A budgetary comparison schedule has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

Proprietary funds are used by the City 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 is the City's only enterprise fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for costs related to workers' compensation, insurance, and accrued employee time off in the workers' compensation fund, the insurance fund, and the employee sick and vacation fund, respectively. 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.

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 which is considered to be a major fund of the City. 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 other supplemental information 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. 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. This is limited to this management's discussion and analysis and the schedules for the pension and other postemployment benefit plans and budgetary information for the City's major special revenue 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.

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

### 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	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and other assets	\$ 251,728,472	\$ 258,003,029	\$ 4,560,812	\$ 4,748,128	\$ 256,289,284	\$ 262,751,157
Capital assets, net	86,556,263	90,435,588	11,118,254	11,683,115	97,674,517	102,118,703
<b>Total assets</b>	<b>338,284,735</b>	<b>348,438,617</b>	<b>15,679,066</b>	<b>16,431,243</b>	<b>353,963,801</b>	<b>364,869,860</b>
<b>Deferred outflows of resources</b>	<b>50,816,561</b>	<b>9,204,748</b>	<b>420,592</b>	<b>50,135</b>	<b>51,237,153</b>	<b>9,254,883</b>
<b>Liabilities</b>						
Current and other liabilities	112,233,855	79,473,178	514,863	529,065	112,748,718	80,002,243
Long-term liabilities	8,269,496	9,253,100	-	-	8,269,496	9,253,100
<b>Total liabilities</b>	<b>120,503,351</b>	<b>88,726,278</b>	<b>514,863</b>	<b>529,065</b>	<b>121,018,214</b>	<b>89,255,343</b>
<b>Deferred inflows of resources</b>	<b>1,978,409</b>	<b>2,245,381</b>	<b>19,356</b>	<b>22,681</b>	<b>1,997,765</b>	<b>2,268,062</b>
<b>Net position:</b>						
Investment in capital assets	86,556,263	90,435,588	11,118,254	11,683,115	97,674,517	102,118,703
Restricted	14,667,566	11,230,275	-	-	14,667,566	11,230,275
Unrestricted	165,395,707	165,005,843	4,447,185	4,246,517	169,842,892	169,252,360
<b>Total net position</b>	<b>\$ 266,619,536</b>	<b>\$ 266,671,706</b>	<b>\$ 15,565,439</b>	<b>\$ 15,929,632</b>	<b>\$ 282,184,975</b>	<b>\$ 282,601,338</b>

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, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$282,184,975 at the close of the most recent fiscal year. \$97,674,517 of the City's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure). The City 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'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's net position, \$14,667,566, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$169,842,892 is unrestricted and could be used to meet the government's ongoing obligations to its citizens and creditors.

The City's overall net position decreased by \$416,363 from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities and business-type activities.

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

Governmental activities. During the current fiscal year, net position for governmental activities decreased \$52,170 from the prior fiscal year for an ending balance of \$266,619,536. This decrease is mainly the aggregate of changes in the net pension asset, liability, deferred inflows, and other post employment benefit liability of \$7,451,506, a decrease of net capital assets of \$3,879,325, and a decrease of accounts receivable and other assets of \$1,795,065. This decrease was offset by an increase in investments of \$10,198,743 a decrease of accounts payable of \$1,830,688, and a decrease of long term debt of \$867,323.

Business-type activities. The City's business-type activities consists of the parking fund. The City owns the Phoenix Center parking structure, which is presently the subject of litigation. During the current fiscal year, net position for business-type activities decreased \$364,193 from the prior fiscal year for an ending balance of \$15,565,439. This is the result of depreciation of capital assets and the recording of the OPEB liability.

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 7,277,544	\$ 6,799,613	\$ 116,007	\$ 92,890	\$ 7,393,551	\$ 6,892,503
Operating grants	8,135,687	7,586,835	429	-	8,136,116	7,586,835
General revenues:						
Property taxes	10,588,890	9,920,446	-	-	10,588,890	9,920,446
Income taxes	12,213,622	11,385,266	-	-	12,213,622	11,385,266
Unrestricted state shared revenues	9,361,266	9,365,569	-	-	9,361,266	9,365,569
Unrestricted investment earnings	219,122	36,795	28,807	7,961	247,929	44,756
Cable franchise fees	609,148	613,347	-	-	609,148	613,347
<b>Total revenues</b>	<b>48,405,279</b>	<b>45,707,871</b>	<b>145,243</b>	<b>100,851</b>	<b>48,550,522</b>	<b>45,808,722</b>
Expenses:						
General government	\$ 1,554,462	\$ 1,989,354	\$ -	\$ -	\$ 1,554,462	\$ 1,989,354
Public safety	34,857,700	23,851,485	-	-	34,857,700	23,851,485
Public works	10,416,217	14,878,933	-	-	10,416,217	14,878,933
Community development	991,296	520,955	-	-	991,296	520,955
Community and human services	462,425	333,125	-	-	462,425	333,125
Recreation and culture	175,349	147,770	-	-	175,349	147,770
Parking	-	-	509,436	1,010,826	509,436	1,010,826
<b>Total expenses</b>	<b>48,457,449</b>	<b>41,721,622</b>	<b>509,436</b>	<b>1,010,826</b>	<b>48,966,885</b>	<b>42,732,448</b>
<b>Change in net position</b>	<b>(52,170)</b>	<b>3,986,249</b>	<b>(364,193)</b>	<b>(909,975)</b>	<b>(416,363)</b>	<b>3,076,274</b>
Net position:						
Beginning of year	266,671,706	55,976,741	15,929,632	14,734,195	282,601,338	70,710,936
Restatement for implementation of GASB 68	-	206,708,716	-	2,105,412	-	208,814,128
<b>End of year</b>	<b>\$ 266,619,536</b>	<b>\$ 266,671,706</b>	<b>\$ 15,565,439</b>	<b>\$ 15,929,632</b>	<b>\$ 282,184,975</b>	<b>\$ 282,601,338</b>

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

### Financial Analysis of the City's Funds

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

**Governmental Funds.** The focus of the City'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'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 itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the Pontiac City Council.

At June 30, 2016, the City's governmental funds reported combined fund balances of \$32,430,441 an increase of \$8,185,949 in comparison with the prior year. Approximately 37.0% of this amount, \$12,004,682, 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 (\$15,687), 2) restricted for particular purposes (\$16,806,858), 3) committed for particular purposes (\$0), or 4) assigned for particular purposes (\$3,603,214).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,004,682, while total fund balance increased to \$14,117,937. 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 44.4% of the total general fund expenditures, while total fund balance represents approximately 52.2% of that same amount.

The fund balance of the City's general fund increased by \$3,359,271 during the current fiscal year. The increase was due to the City spending less money than budgeted on contributions to the workers' compensation fund and district court fund. Additionally, there were decreases in expenditures related to legal, demolitions, and expenditures related to capital assets. The City also incurred less property tax chargebacks from previous years.

The major street fund, a major fund, had a \$1,662,503 increase in fund balance during the current fiscal year which increased the overall fund balance to \$4,616,720. This is a result of additional revenue received than budgeted related to Public Act 84 of 2015 for street programs as well as less expenditures incurred than budgeted on capital projects.

The sanitation fund, a major fund, had a \$424,556 increase in fund balance during the current fiscal year which increased the overall fund balance to \$5,205,430. The increase in fund balance was caused by the City spending less than anticipated on landfill monitoring services and refuse collection.

The district court fund, a major fund, had a \$42,147 decrease in fund balance during the current fiscal year which decreased the fund balance to \$4,893. This decrease was due to utilization of fund balance to cover the cost of operating expenditures during the year.

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

Net position of the parking fund at the end of the fiscal year was \$15,565,439. The total decrease in net position for the proprietary funds was \$364,193 (parking fund is the only propriety fund of the City). This was primarily caused by an increase of deferred outflows relating to GASB 68 of \$370,457 combined with a decrease in the net pension asset of \$182,825 and depreciation of capital assets.

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

### General Fund Budgetary Highlights

Original budget compared to final budget. Over the course of the year, the City amended the budget once to take into account events during the year. The amendment was adopted by the City Council, Transition Advisory Board and State Treasurer, to recognize changes in assumptions since the original budget was approved by the Transition Advisory Board.

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 \$1,651,701 which is mostly due to total tax collections exceeding the final budget estimates by approximately \$1,600,000. Property tax chargebacks were less than anticipated by \$984,654 causing actual revenue to be more than budget, income tax refunds of \$517,883 were less than anticipated causing actual revenue to be more than budget, and income tax collection revenue exceeded the budget by \$140,732.
- Total expenditures came in \$2,212,217 less than budgeted. Significant savings resulted from less than anticipated expenditures to Oakland County Sheriff (\$168,895), various professional services (\$403,800), workers' compensation (\$291,830), utilities (\$108,489), community development (\$181,054), capital outlay (\$241,334), contribution to the to district court fund (\$340,269) and legal services (\$192,768).

### Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$97,674,517 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, vehicles, and infrastructure.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 24,495,058	\$ 24,495,058	\$ 3,173,454	\$ 3,173,454	\$ 27,668,512	\$ 27,668,512
Construction in progress	364,293	38,456	-	-	364,293	38,456
Streets and bridges	59,766,829	63,548,317	-	-	59,766,829	63,548,317
Buildings and improvements	1,189,449	1,581,877	7,944,800	8,509,661	9,134,249	10,091,538
Machinery and equipment	356,233	367,551	-	-	356,233	367,551
Vehicles	146,410	204,975	-	-	146,410	204,975
Land improvements	237,991	199,354	-	-	237,991	199,354
<b>Total</b>	<b>\$ 86,556,263</b>	<b>\$ 90,435,588</b>	<b>\$ 11,118,254</b>	<b>\$ 11,683,115</b>	<b>\$ 97,674,517</b>	<b>\$ 102,118,703</b>

Long-term debt. At the end of the current fiscal year, the City had total indebtedness of \$9,293,651.

The City's total indebtedness decreased by \$867,323 during the current fiscal year primarily due to the reduction of the City's 2007 Financial Guarantee.

Presently, the City does not have any debt that is rated by any of the debt rating agencies related to governmental activities and business-type activities.

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 is approximately \$66.2 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. Income tax revenue continue to outpace budget assumptions.
- 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.
- Significant new construction projects are in process of being developed in the City, including tax increment financing districts.
- Charges for general liability insurance 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 for the City employees and 50th District Court employees increased to approximately \$24,000 for family coverage by January 1, 2016. State law limits the City's exposure to a maximum of 80% of the premiums. 50th District Court union employees adopted the 80/20 formula on September 1, 2016. City employees and non union district court employees were already part of the 80/20 or hard cap arrangement at June 30,2016.
- Because of low supply and low demand for single-family housing, sales prices are steadily increasing, as the market is making a steady correction.
- The City is significantly reducing the amount of excess housing units in the City through a strong demolition program of dangerous structures.

Effective September 1, 2013, the City 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 operate under a structurally balanced budget (see Note 18). In addition, the City 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 action is also subject of litigation (see Note 17).

The City plans to use \$2,103,214 of its unassigned fund balance in the general fund for the 2016-17 fiscal year. The purpose for the use of this fund balance is to transfer money to be used for significant capital improvements.

### 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, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 33,466,390	\$ 2,340,376	\$ 35,806,766	\$ 1,193,102
Receivables, net	7,862,119	3,945	7,866,064	10,920
Other assets	3,185,513	183,440	3,368,953	-
Restricted assets	2,520,916	-	2,520,916	-
Capital assets not being depreciated	24,859,351	3,173,454	28,032,805	-
Capital assets being depreciated, net	61,696,912	7,944,800	69,641,712	-
Net pension asset	204,693,534	2,033,051	206,726,585	-
<b>Total assets</b>	<b>338,284,735</b>	<b>15,679,066</b>	<b>353,963,801</b>	<b>1,204,022</b>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	-	-	-	639,633
Deferred pension amounts	50,816,561	420,592	51,237,153	-
<b>Total deferred outflows of resources</b>	<b>50,816,561</b>	<b>420,592</b>	<b>51,237,153</b>	<b>639,633</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	6,508,566	13,347	6,521,913	876,456
Unearned revenue	2,575	-	2,575	-
Long-term liabilities:				
Due within one year	1,024,155	-	1,024,155	1,260,000
Due in more than one year	8,269,496	-	8,269,496	22,455,000
Financial guarantee	-	-	-	2,277,980
Net pension liability	28,111,522	-	28,111,522	-
Net other postemployment benefit obligation	76,587,037	501,516	77,088,553	-
<b>Total liabilities</b>	<b>120,503,351</b>	<b>514,863</b>	<b>121,018,214</b>	<b>26,869,436</b>
<b>Deferred inflows of resources</b>				
Deferred pension amounts	1,978,409	19,356	1,997,765	-
<b>Net position</b>				
Investment in capital assets	86,556,263	11,118,254	97,674,517	-
Restricted for:				
Roads	7,696,932	-	7,696,932	-
Drug enforcement	244,604	-	244,604	-
Capital projects	1,174,052	-	1,174,052	-
Sanitation	3,045,681	-	3,045,681	-
Drains	99,340	-	99,340	-
Senior activities	963,185	-	963,185	-
Community development	4,972	-	4,972	-
Home buyers assistance	3,638	-	3,638	-
District court	4,893	-	4,893	-
Cable television	1,096,903	-	1,096,903	-
Telecommunications	500	-	500	-
Building Inspection	332,866	-	332,866	-
Unrestricted (deficit)	165,395,707	4,447,185	169,842,892	(25,025,781)
<b>Total net position</b>	<b>\$ 266,619,536</b>	<b>\$ 15,565,439</b>	<b>\$ 282,184,975</b>	<b>\$ (25,025,781)</b>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Primary government</b>				
Governmental activities:				
General government	\$ 1,554,462	\$ 1,812,371	\$ 2,205,033	\$ 2,462,942
Public safety	34,857,700	265,944	212,492	(34,379,264)
Public works	10,416,217	2,661,734	5,471,379	(2,283,104)
Community development	991,296	2,533,025	245,962	1,787,691
Community and human services	462,425	-	400	(462,025)
Recreation and culture	175,349	4,470	421	(170,458)
<b>Total governmental activities</b>	<b>48,457,449</b>	<b>7,277,544</b>	<b>8,135,687</b>	<b>(33,044,218)</b>
Business-type activities -				
Parking fund	509,436	116,007	429	(393,000)
<b>Total primary government</b>	<b>\$ 48,966,885</b>	<b>\$ 7,393,551</b>	<b>\$ 8,136,116</b>	<b>\$ (33,437,218)</b>
<b>Component units</b>				
Tax Increment Financing Authority	\$ 2,094,483	\$ -	\$ -	\$ (2,094,483)
Brownfield Redevelopment Authority	587	-	-	(587)
<b>Total component units</b>	<b>\$ 2,095,070</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,095,070)</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (33,044,218)	\$ (393,000)	\$ (33,437,218)	\$ (2,095,070)
General revenues				
Property taxes	10,588,890	-	10,588,890	1,472,501
Income taxes	12,213,622	-	12,213,622	-
State-shared revenue (unrestricted)	9,361,266	-	9,361,266	-
Unrestricted investment earnings	219,122	28,807	247,929	-
Cable franchise fees	609,148	-	609,148	-
Other general revenues	-	-	-	38,300
Contributions from primary government	-	-	-	928,409
Total general revenues	32,992,048	28,807	33,020,855	2,439,210
Change in net position	(52,170)	(364,193)	(416,363)	344,140
Net position, beginning of year	266,671,706	15,929,632	282,601,338	(25,369,921)
Net position, end of year	\$ 266,619,536	\$ 15,565,439	\$ 282,184,975	\$ (25,025,781)

concluded.

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

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## FUND FINANCIAL STATEMENTS

# CITY OF PONTIAC, MICHIGAN

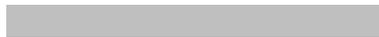
## Balance Sheet

Governmental Funds

June 30, 2016

	General	Major Streets	Sanitation	District Court
<b>Assets</b>				
Cash and investments	\$ 13,260,029	\$ 4,223,565	\$ 3,179,500	\$ 870,008
Accounts receivable	335,258	6,704	11,132	-
Taxes receivable, net	3,949,556	-	37,659	-
Interest receivable	7,425	204	-	-
Due from other governments	1,591,536	661,858	-	-
Due from other funds	937,135	-	-	-
Prepays	10,041	-	41	4,893
Restricted assets	-	-	2,520,916	-
<b>Total assets</b>	<b>\$ 20,090,980</b>	<b>\$ 4,892,331</b>	<b>\$ 5,749,248</b>	<b>\$ 874,901</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,989,342	\$ 263,956	\$ 243,019	\$ 105,778
Accrued wages	70,263	4,747	819	54,971
Due to other governments	862,935	-	279,267	-
Due to other funds	-	-	-	709,259
Deposits payable	367,826	-	-	-
Unearned revenue	2,575	-	-	-
<b>Total liabilities</b>	<b>3,292,941</b>	<b>268,703</b>	<b>523,105</b>	<b>870,008</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue	2,680,102	6,908	20,713	-
<b>Fund balances</b>				
Nonspendable	10,041	-	41	4,893
Restricted	-	4,616,720	5,205,389	-
Assigned	2,103,214	-	-	-
Unassigned	12,004,682	-	-	-
<b>Total fund balances</b>	<b>14,117,937</b>	<b>4,616,720</b>	<b>5,205,430</b>	<b>4,893</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 20,090,980</b>	<b>\$ 4,892,331</b>	<b>\$ 5,749,248</b>	<b>\$ 874,901</b>

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



Nonmajor Governmental Funds	Totals
\$ 8,974,422	\$ 30,507,524
43,706	396,800
25,830	4,013,045
913	8,542
489,104	2,742,498
-	937,135
712	15,687
-	2,520,916
<u>\$ 9,534,687</u>	<u>\$ 41,142,147</u>
\$ 673,148	\$ 3,275,243
11,405	142,205
128,294	1,270,496
227,876	937,135
600	368,426
-	2,575
<u>1,041,323</u>	<u>5,996,080</u>
<u>7,903</u>	<u>2,715,626</u>
712	15,687
6,984,749	16,806,858
1,500,000	3,603,214
-	12,004,682
<u>8,485,461</u>	<u>32,430,441</u>
<u>\$ 9,534,687</u>	<u>\$ 41,142,147</u>

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# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2016

Fund balances - total governmental funds	\$ 32,430,441
Amounts reported for <i>governmental activities</i> 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	24,859,351
Capital assets being depreciated	329,866,730
Accumulated depreciation	(268,169,818)
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.	
	2,715,626
Certain pension-related amounts, such as the net pension asset/liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(28,111,522)
Net pension asset	204,693,534
Deferred outflows related to the net pension asset and liability	50,816,561
Deferred inflows related to the net pension asset and liability	(1,978,409)
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.	
	4,943,811
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(6,679,270)
Landfill closure and postclosure costs	(2,180,462)
Net other postemployment benefit obligation	(76,587,037)
Net position of governmental activities	<u>\$ 266,619,536</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, 2016

	General	Major Streets	Sanitation	District Court
<b>Revenues</b>				
Taxes and special assessments	\$ 19,752,600	\$ -	\$ 1,632,698	\$ -
Federal revenue	14,448	-	-	-
State revenue	9,402,108	3,846,384	-	182,096
Charges for services	1,214,197	-	2,338,669	637,903
Fines and forfeitures	13,813	-	-	1,083,214
Licenses and permits	193,900	-	-	-
Interest and rental revenue	260,393	16,235	11,244	1,333
Other revenue	1,622,055	199,948	-	-
<b>Total revenues</b>	<b>32,473,514</b>	<b>4,062,567</b>	<b>3,982,611</b>	<b>1,904,546</b>
<b>Expenditures</b>				
Current:				
General government	3,526,379	-	-	-
District court	-	-	-	2,544,309
Public safety	18,193,966	-	-	-
Public works	1,294,814	2,129,064	3,558,055	-
Community and economic development	1,677,685	-	-	-
Community and human services	-	-	-	-
Recreation and culture	309,990	-	-	-
Other expenditures	2,041,669	-	-	-
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>27,044,503</b>	<b>2,129,064</b>	<b>3,558,055</b>	<b>2,544,309</b>
<b>Revenues over (under) expenditures</b>	<b>5,429,011</b>	<b>1,933,503</b>	<b>424,556</b>	<b>(639,763)</b>
<b>Other financing sources (uses)</b>				
Transfers in	248,303	200,000	-	618,043
Transfers out	(2,318,043)	(471,000)	-	(20,427)
<b>Total other financing sources (uses)</b>	<b>(2,069,740)</b>	<b>(271,000)</b>	<b>-</b>	<b>597,616</b>
<b>Net changes in fund balances</b>	<b>3,359,271</b>	<b>1,662,503</b>	<b>424,556</b>	<b>(42,147)</b>
<b>Fund balances, beginning of year</b>	<b>10,758,666</b>	<b>2,954,217</b>	<b>4,780,874</b>	<b>47,040</b>
<b>Fund balances, end of year</b>	<b>\$ 14,117,937</b>	<b>\$ 4,616,720</b>	<b>\$ 5,205,430</b>	<b>\$ 4,893</b>

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



Nonmajor Governmental Funds	Totals
\$ 1,157,449	\$ 22,542,747
-	14,448
1,652,922	15,083,510
75,778	4,266,547
35,837	1,132,864
2,266,417	2,460,317
38,345	327,550
194,974	2,016,977
<u>5,421,722</u>	<u>47,844,960</u>
194,892	3,721,271
-	2,544,309
2,067,876	20,261,842
1,397,730	8,379,663
-	1,677,685
367,277	367,277
-	309,990
-	2,041,669
355,305	355,305
<u>4,383,080</u>	<u>39,659,011</u>
<u>1,038,642</u>	<u>8,185,949</u>
1,971,000	3,037,346
(227,876)	(3,037,346)
<u>1,743,124</u>	<u>-</u>
2,781,766	8,185,949
<u>5,703,695</u>	<u>24,244,492</u>
<u>\$ 8,485,461</u>	<u>\$ 32,430,441</u>

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# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Changes in Net Position of Governmental Activities  
For the Year Ended June 30, 2016

Net changes in fund balances - total governmental funds	\$ 8,185,949
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 assets purchased/constructed	935,076
Depreciation expense	(4,814,401)
Revenues recorded in the statement of activities in the prior year that did not provide current financial resources are reported as revenues in the funds in the current year.	546,566
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	(11,016,078)
Change in net pension asset/liability	3,741,544
Change in the accrual for tax settlement agreement	2,649
Change in financial guarantee	687,096
Change in landfill closure and postclosure liability	103,451
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds. The change in the net position of the internal service funds is reported with governmental activities.	<u>1,575,978</u>
Change in net position of governmental activities	<u><u>\$ (52,170)</u></u>

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

CITY OF PONTIAC, MICHIGAN

Statement of Net Position

Proprietary Funds  
June 30, 2016

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 2,340,376	\$ 2,958,866
Accounts receivable	3,945	608,132
Due from other governments	-	92,619
Interest receivable	-	483
Prepays	183,440	3,169,826
Total current assets	<u>2,527,761</u>	<u>6,829,926</u>
Noncurrent assets:		
Capital assets not being depreciated	3,173,454	-
Capital assets being depreciated, net	7,944,800	-
Net pension asset	2,033,051	-
Total noncurrent assets	<u>13,151,305</u>	<u>-</u>
Total assets	<u>15,679,066</u>	<u>6,829,926</u>
Deferred outflows of resources		
Deferred pension amounts	<u>420,592</u>	<u>-</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	10,320	46,170
Accrued liabilities	-	1,404,468
Accrued wages	-	1,558
Due to other governments	3,027	-
Current portion of compensated absences	-	103,915
Total current liabilities	<u>13,347</u>	<u>1,556,111</u>
Noncurrent liabilities:		
Net other postemployment benefit obligation	501,516	-
Compensated absences	-	330,004
Total noncurrent liabilities	<u>501,516</u>	<u>330,004</u>
Total liabilities	<u>514,863</u>	<u>1,886,115</u>
Deferred inflows of resources		
Deferred pension amounts	<u>19,356</u>	<u>-</u>
<b>Net position</b>		
Investment in capital assets	11,118,254	-
Unrestricted	<u>4,447,185</u>	<u>4,943,811</u>
Total net position	<u>\$ 15,565,439</u>	<u>\$ 4,943,811</u>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ 116,007	\$ 4,954,204
Other revenue	429	-
Total operating revenue	<u>116,436</u>	<u>4,954,204</u>
Operating expenses		
Insurance	-	3,257,766
Operating and maintenance costs	(55,425)	-
Workers' compensation expense	-	129,772
Depreciation	564,861	-
Miscellaneous expense	-	1,792
Total operating expenses	<u>509,436</u>	<u>3,389,330</u>
Operating income (loss)	(393,000)	1,564,874
Nonoperating revenues		
Interest income	<u>28,807</u>	<u>11,104</u>
Change in net position	(364,193)	1,575,978
Net position, beginning of year	<u>15,929,632</u>	<u>3,367,833</u>
Net position, end of year	<u>\$ 15,565,439</u>	<u>\$ 4,943,811</u>

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

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# CITY OF PONTIAC, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 123,592	\$ -
Cash payments to suppliers	(149,734)	(5,758,004)
Cash payments to employees	-	(73,615)
Cash received from interfund services	-	4,867,308
Net cash used for operating activities	<u>(26,142)</u>	<u>(964,311)</u>
Cash flows from investing activities		
Interest income	<u>28,807</u>	<u>11,104</u>
Net change in cash and investments	2,665	(953,207)
Cash and investments, beginning of year	<u>2,337,711</u>	<u>3,912,073</u>
Cash and investments, end of year	<u>\$ 2,340,376</u>	<u>\$ 2,958,866</u>
Reconciliation of operating income (loss) to net cash used for operating activities		
Operating income (loss)	\$ (393,000)	\$ 1,564,874
Adjustments to reconcile operating income (loss) to net cash used for operating activities		
Depreciation expense	564,861	-
Change in:		
Accounts receivable	7,156	(85,104)
Due from other governments	-	(73,742)
Interest receivable	-	(483)
Prepays	-	(701,287)
Net pension asset and deferred amounts	(190,957)	-
Accounts payable	(9,087)	(15,916)
Accrued liabilities	-	(1,568,033)
Accrued wages	-	512
Unearned revenue	(7,156)	(11,005)
Due to other governments	(588)	-
Net other postemployment benefit obligation	2,629	-
Compensated absences	-	(74,127)
Net cash used for operating activities	<u>\$ (26,142)</u>	<u>\$ (964,311)</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, 2015	June 30, 2016
	Pension and Other Postemployment Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 1,054,173	\$ 471,440
Investments at fair value:		
Money market funds	1,379,755	-
U.S. government obligations and agencies	30,318,892	-
Government agency notes and debentures	33,643,990	-
Mortgage-backed securities	1,173,478	-
Collateralized mortgage obligations	355,084	-
U.S government mortgage-backed securities	23,820,908	-
Commercial mortgage pools	4,631,380	-
Asset-backed securities	5,930,390	-
Corporate and other bonds	27,203,365	-
High-yield bonds	9,386,097	-
Foreign bonds and notes	20,174	-
Limited partnerships	67,275,982	-
Domestic stock	133,411,679	-
Short-term investments	15,039,266	-
Equities	29,376,904	-
Domestic equities	287,891,538	-
Private equities	13,812,729	-
Foreign equities	20,204,685	-
Real estate	13,455,186	-
Real estate investment trusts	457,062	-
Private placement bonds	106,649	-
Accrued interest and dividends receivable	1,532,937	-
Due from broker	45,587	-
Other receivables	3,775	-
Due from Police and Fire Retirement System VEBA	86,983	-
<b>Total assets</b>	<u>721,618,648</u>	<u>\$ 471,440</u>

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Fiduciary Net Position Fiduciary Funds

	December 31, 2015	June 30, 2016
	Pension and Other Postemployment Trust Funds	Agency Funds
<b>Liabilities</b>		
Due to City of Pontiac	\$ 72,778	\$ -
Due to Police and Fire Retirement System	86,983	-
Accounts payable and other	994,451	-
Accounts payable	-	3,586
Due to other governments	-	16,231
Deposits payable	-	451,623
<b>Total liabilities</b>	<u>1,154,212</u>	<u>\$ 471,440</u>
<b>Net position held in trust for</b>		
Pension benefits	683,977,716	
Other postemployment benefits	<u>36,486,720</u>	
<b>Total net position</b>	<u>\$ 720,464,436</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, 2015

	Pension and Other Postemployment Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividend income	\$ 15,701,349
Net decrease in fair value	(14,896,867)
Less investment expenses	<u>(3,737,966)</u>
Net investment loss	<u>(2,933,484)</u>
Contributions:	
Employer	2,327,949
Employees	<u>656,494</u>
Total contributions	<u>2,984,443</u>
Miscellaneous and litigation revenue	<u>54,451</u>
Total additions	<u>105,410</u>
<b>Deductions</b>	
Retirees' pension benefits	47,803,847
Retiree health benefit payments	2,347,878
Administrative expenses	<u>1,344,143</u>
Total deductions	<u>51,495,868</u>
Change in net position	(51,390,458)
Net position, beginning of year	<u>771,854,894</u>
Net position, end of year	<u><u>\$ 720,464,436</u></u>

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, 2016

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
<b>Assets</b>			
Cash and investments	\$ 935,760	\$ 257,342	\$ 1,193,102
Receivables, net	10,920	-	10,920
<b>Total assets</b>	<b>946,680</b>	<b>257,342</b>	<b>1,204,022</b>
<b>Deferred outflows of resources</b>			
Deferred loss on refunding	639,633	-	639,633
<b>Liabilities</b>			
Accounts payable and accrued liabilities	873,805	2,651	876,456
Long-term liabilities:			
Due within one year	1,260,000	-	1,260,000
Due in more than one year	22,455,000	-	22,455,000
Financial guarantee	2,277,980	-	2,277,980
<b>Total liabilities</b>	<b>26,866,785</b>	<b>2,651</b>	<b>26,869,436</b>
<b>Net position</b>			
Unrestricted (deficit)	\$ (25,280,472)	\$ 254,691	\$ (25,025,781)

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, 2016

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
<b>Expenses</b>			
Commercial and industrial development	\$ -	\$ 587	\$ 587
Financial guarantee	928,409	-	928,409
Interest on long-term debt	1,166,074	-	1,166,074
<b>Total expenses</b>	<b>2,094,483</b>	<b>587</b>	<b>2,095,070</b>
<b>General revenues</b>			
Property taxes	1,439,163	33,338	1,472,501
Other general revenues	38,300	-	38,300
Contributions from primary government	928,409	-	928,409
<b>Total general revenues</b>	<b>2,405,872</b>	<b>33,338</b>	<b>2,439,210</b>
<b>Change in net position</b>	<b>311,389</b>	<b>32,751</b>	<b>344,140</b>
<b>Net position, beginning of year</b>	<b>(25,591,861)</b>	<b>221,940</b>	<b>(25,369,921)</b>
<b>Net position, end of year</b>	<b>\$ (25,280,472)</b>	<b>\$ 254,691</b>	<b>\$ (25,025,781)</b>

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. Starting in early 2000's, the City's General Fund began having a structural deficit that eventually prompted a preliminary review of the City's financial condition 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), (which was later amended), and submitted his resignation to the governor who appointed a Receivership Transition Advisory Board (RTAB) in accordance with Public Act 436 of 2012 to monitor the operations of the City. As of April 30, 2016 the City Administrator position was eliminated and the State relinquished most of the control to the local officials. The State of Michigan, through the RTAB, retains control and final say over major litigation cases and contracts in excess of \$500,000 as well as all budget amendments. Currently, the City directly manages and staffs treasury, city clerk, human resources, finance, executive offices, purchasing operations, and parts of DPW operations while 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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 captured property taxes. The properties included are listed as contaminated by the Environmental Protection Agency. Each authority shall be under the supervision and control of a board chosen by the governing body (City Council). The governing body may by majority vote designate the trustees of the board of the Tax Increment Financing Authority as the Brownfield Redevelopment Board, which City Council did by resolution on December 18, 1997. Internally prepared financial statements for the Brownfield Redevelopment Authority can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

### *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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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

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

The City reports the following major governmental funds:

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

*Major streets special revenue fund.* The major streets 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 host fees. It also records the expenditures for rubbish collection, hauling and disposal, recycling, composting, and trash cleanup.

*District court special revenue fund.* The district court fund accounts for receipts and disbursements directly related to the operations of the district court. The financial resources of this fund are restricted for district court operations.

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.

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 of capital facilities and other capital assets.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Internal service funds.* Internal service funds account for risk management services provided to other departments of the City on a cost-reimbursement basis and accrued sick and vacation time.

*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, and Police and Fire Retirement System VEBA, which accumulates resources for pension and other postemployment benefit payments to qualified employees.

*Agency funds.* The agency funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

All funds are shown for the year ended June 30, 2016, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2015.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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. 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 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the City of Pontiac totaled approximately \$662 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 \$7.02 million for operating, \$1.76 million for refuse collection and disposal, \$0.88 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

#### *Deposits and Investments*

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average method.

#### *Receivables and Payables*

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that result from the allocation of available cash balances at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

#### *Prepaid Items*

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

#### *Restricted Assets*

The City has set cash aside for the future closure and post-closure care for the landfill. These assets have been classified as restricted assets in the sanitation fund.

#### *Capital Assets*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$50,000 for buildings and building improvements, \$25,000 for land improvements, \$20,000 for vehicles and \$10,000 for all other assets when valued individually 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 acquisition cost 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

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

### *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.

### *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.

### *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 City has deferred inflows of resources related to pension costs. 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### *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 City Council. A resolution by the City Council 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. The City Council has delegated the authority to assign fund balance to the Finance Department. 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.

### *Pensions*

For purposes of measuring the net pension asset and liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### *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 accounts for construction code activity in the Building Inspection Special Revenue Fund.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 3. 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, 2016:

	Primary Government	Component Units	Total
<b>Statement of net position</b>			
Cash and investments	\$ 35,806,766	\$ 1,193,102	\$ 36,999,868
Restricted assets	2,520,916	-	2,520,916
<b>Statement of fiduciary net position</b>			
Cash and cash equivalents	1,525,613	-	1,525,613
Investments	718,895,193	-	718,895,193
<b>Total</b>	<b>\$ 758,748,488</b>	<b>\$ 1,193,102</b>	<b>\$ 759,941,590</b>
Bank deposits (demand accounts and certificates of deposit)			\$ 27,306,554
Investments in securities, mutual funds and similar vehicles:			
U.S. Treasury securities			1,010,057
Municipal bonds			2,108,690
Oakland County Local Government Investment Pool (LGIP)			9,563,225
General Employees' Retirement System			458,964,931
Police and Fire Retirement System			224,391,135
Police and Fire Retirement System VEBA			36,593,300
Cash on hand			3,698
			<u>\$ 759,941,590</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 347 of 2012. 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 347 of 2012. 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, 2015 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 \$30,482,439 of bank deposits (certificates of deposit, checking, and savings accounts). \$24,455,179 of the City's bank balance of \$28,446,008 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Police and Fire Retirement System* - The PFRS does not have a deposit policy for custodial credit risk. At year end the PFRS had \$59,488 in bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The PFRS 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 \$507,115 of bank deposits (certificates of deposit and 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, 2016, 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 months, 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 25 percent. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (years)
U.S. governmental investments:		
Government agencies	\$ 3,179,382	2.22
Government mortgage-backed securities	9,817,422	9.73
Government bonds	25,889,368	6.6
Corporate and other bonds	4,766,787	7.97

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

Investment	Fair Value	Weighted Average Maturity (years)
Asset-backed securities	\$ 5,191,607	3.70
Commercial mortgage pools	4,536,937	27.83
Corporate bonds	30,083,490	6.81
Government agencies	1,825,779	4.93
Government bonds	22,205,611	7.00
Government mortgage-backed securities	14,003,486	24.90
U.S. governmental issued commercial mortgage-backed securities	188,700	0.91
Index linked governmental bonds	1,725,250	9.05
Municipal/provincial bonds	7,698,650	7.4
Nongovernment-backed CMOs	94,444	20.25
Short-term investment funds	14,420,541	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 (years)
Corporate:		
Asset-backed	\$ 738,783	4.05
Corporate bonds	1,739,184	4.41
Collateralized mortgage obligations	264,690	30.27
Private placement	106,649	3.62
Foreign bonds	20,174	4.12
U.S. government:		
Agency	287,396	3.24
Collateralized mortgage obligations	90,394	10.74
Mortgage-backed securities	1,173,478	23.37
Treasuries, notes and bonds	962,746	7.67

*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	\$ 1,784,208	AA	S&P
Corporate bonds	1,714,679	A	S&P
Corporate bonds	1,267,900	BBB	S&P
Short-term investment funds	1,379,755	Not rated	n/a
Government agencies	3,179,382	AA	S&P

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*General Employees' Retirement System* - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities to not less than a CCC rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	\$ 1,684,525	Aaa	Moody's
Asset-backed securities	293,996	Aa	Moody's
Asset-backed securities	49,420	A	Moody's
Asset-backed securities	201,830	Baa	Moody's
Asset-backed securities	2,961,836	Unrated	n/a
Commercial mortgage-backed securities	2,838,808	Aaa	Moody's
Commercial mortgage-backed securities	1,519,666	Aa	Moody's
Commercial mortgage-backed securities	178,464	Baa	Moody's
Corporate bonds	1,527,971	Aa	Moody's
Corporate bonds	6,864,959	A	Moody's
Corporate bonds	13,144,215	Baa	Moody's
Corporate bonds	830,281	Ba	Moody's
Corporate bonds	4,491,684	B	Moody's
Corporate bonds	3,221,381	Caa	Moody's
Governmental agency notes and debentures	24,220,646	Aaa	Moody's
Governmental agency notes and debentures	878,596	Aa	Moody's
Government mortgage-backed securities	846,099	Unrated	n/a
Nongovernment-backed CMOs	8,983	A	Moody's
Nongovernment-backed CMOs	85,459	Unrated	n/a
Short-term investment funds	14,420,541	Unrated	n/a
Municipal/Provincial bonds	1,839,969	Aaa	Moody's
Municipal/Provincial bonds	3,384,480	Aa	Moody's
Municipal/Provincial bonds	2,474,200	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 are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Corporate:</b>			
Asset-backed securities	\$ 149,533	AAA	S&P
Asset-backed securities	48,143	AA	S&P
Asset-backed securities	269,997	A	S&P
Asset-backed securities	271,110	Not rated	n/a
Corporate bonds	554,731	A	S&P
Corporate bonds	1,139,844	BBB	S&P
Corporate bonds	44,609	BB	S&P
Collateralized mortgage obligations	48,714	AAA	S&P
Collateralized mortgage obligations	141,010	AA	S&P
Collateralized mortgage obligations	74,966	Not rated	n/a
Private placement	25,660	A	S&P
Private placement	80,989	BBB	S&P
Foreign bonds	20,174	BBB	S&P
<b>U.S. government:</b>			
Agency	287,396	AA	S&P
Collateralized mortgage obligations	90,394	Not rated	n/a
Mortgage-backed securities	1,173,478	Not rated	n/a
Treasuries, notes and bonds	962,746	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.

*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 December 31, 2015, 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 \$20,204,685. At year end, the System had a total foreign currency translation loss of \$1,720,059 related to equity investments.

Security	Fair Value
Australian Dollar	\$ 1,222,138
British Pound	3,715,865
Canadian Dollar	996,697
Denmark Krone	3,890,622
European Euro	1,535,666
Hong Kong Dollar	1,309,310
Japanese Yen	3,357,941
Mexican Peso	693,167
South African Rand	380,304
Swiss Franc	3,102,975

*Fair Value Measurements.* The City categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the City.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

The City had the following recurring fair value measurements as of June 30, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at June 30, 2016
<b>Debt Securities</b>				
U.S. treasury securities (1)	\$ -	\$ 1,010,057	\$ -	\$ 1,010,057
Municipal bonds (1)	-	306,987	-	306,987
Municipal bonds (2)	-	1,801,703	-	1,801,703
<b>Total investments at fair value</b>	<b>\$ -</b>	<b>\$ 3,118,747</b>	<b>\$ -</b>	<b>3,118,747</b>
<b>Investments measured at NAV</b>				
Oakland county investments				9,563,225
<b>Total investments</b>				<b>\$ 12,681,972</b>

*Valuation Techniques.* The City used the following valuation techniques in determining the inputs used to categorize the fair value measurements of its investments. 1) Quoted market prices for similar securities, 2) Matrix pricing.

The Oakland County Local Government Investment Pool (LGIP) invests assets in a manner which will seek the highest investment return consistent with preservation of principal and meet the daily liquidity needs of participants. The Oakland County (LGIP) is not registered with the SEC and does not issue a separate report. The fair value of the position in the pool is not the same as the value of the pool shares, since the pool does not meet the requirements under GASB 79 to report its value for financial reporting purposes at amortized cost.

## 4. 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	\$ 13,640,499	\$ -
Accounts	1,044,374	3,945
Intergovernmental	2,835,117	-
Interest receivable	9,025	-
Less allowance for doubtful accounts	(9,666,896)	-
<b>Net receivables</b>	<b>\$ 7,862,119</b>	<b>\$ 3,945</b>

At June 30, 2016, approximately \$2.7 million of the net receivables in governmental activities are not expected to be collected within one year.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 24,495,058	\$ -	\$ -	\$ 24,495,058
Construction in progress	38,456	325,837	-	364,293
Total capital assets not being depreciated	24,533,514	325,837	-	24,859,351
Capital assets being depreciated:				
Streets and bridges	287,090,247	479,054	-	287,569,301
Buildings and improvements	40,635,700	12,575	-	40,648,275
Machinery and equipment	556,954	62,205	-	619,159
Vehicles	655,043	-	-	655,043
Land improvements	319,547	55,405	-	374,952
Total capital assets being depreciated	329,257,491	609,239	-	329,866,730
Less accumulated depreciation for:				
Streets and bridges	(223,541,930)	(4,260,542)	-	(227,802,472)
Buildings and improvements	(39,053,823)	(405,003)	-	(39,458,826)
Machinery and equipment	(189,403)	(73,523)	-	(262,926)
Vehicles	(450,068)	(58,565)	-	(508,633)
Land improvements	(120,193)	(16,768)	-	(136,961)
Total accumulated depreciation	(263,355,417)	(4,814,401)	-	(268,169,818)
Total capital assets being depreciated, net	65,902,074	(4,205,162)	-	61,696,912
Governmental activities capital assets, net	\$ 90,435,588	\$ (3,879,325)	\$ -	\$ 86,556,263

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Business-type activities</b>				
<b>Parking fund</b>				
Capital assets not being depreciated -				
Land	\$ 3,173,454	\$ -	\$ -	\$ 3,173,454
Capital assets being depreciated:				
Buildings and improvements	33,573,313	-	-	33,573,313
Traffic signs	57,182	-	-	57,182
Total capital assets being depreciated	33,630,495	-	-	33,630,495
Less accumulated depreciation for:				
Buildings and improvements	(25,063,652)	(564,861)	-	(25,628,513)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(25,120,834)	(564,861)	-	(25,685,695)
Total capital assets being depreciated, net	8,509,661	(564,861)	-	7,944,800
Parking fund capital assets, net	\$ 11,683,115	\$ (564,861)	\$ -	\$ 11,118,254

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

<b>Depreciation of governmental activities by function</b>	
General government	\$ 383,690
Public safety	94,442
Public works	4,292,142
Community and human services	44,127
Total depreciation expense - governmental activities	\$ 4,814,401
<b>Depreciation of business-type activities by function</b>	
Parking	\$ 564,861

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

	Spent to Date	Remaining Commitment
<b>Governmental activities:</b>		
Geospatial Asset Management System	\$ 3,974	\$ 156,026
Paddock Road Reconstruction	1,472	1,749,148
Franklin Road Reconstruction	-	198,040
	\$ 5,446	\$ 2,103,214

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2016, the composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General fund	District court func	\$ 709,259
	Nonmajor governmental funds	<u>227,876</u>
	Total general fund	<u>\$ 937,135</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, 2016, interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred from	Fund Transferred To	Amount
General fund	Major street fund (1)	\$ 200,000
	District court fund (2)	618,043
	Nonmajor governmental funds (1)	<u>1,500,000</u>
	Total general fund	2,318,043
Major street fund	Nonmajor governmental fund (3)	471,000
District court fund	General fund (4)	20,427
Nonmajor governmental fund	General fund (5)	<u>227,876</u>
	Total governmental funds	<u>\$ 3,037,346</u>

During the fiscal year transfers were used to (1) Transfer for capital infrastructure projects (2) Transfer for subsidy of District Court operations (3) Make allowable transfers under ACT 51 (4) Transfer parking fine collections (5) Transfer for allowable expenditures under Metro Act.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 7. LONG-TERM DEBT

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	\$ 2,649	\$ -	\$ (2,649)	\$ -	\$ -
2007C TIFA Bond Financial Guarantee	7,366,366	241,313	(928,409)	6,679,270	920,240
Compensated absences	508,046	-	(74,127)	433,919	103,915
Landfill closure and postclosure costs	2,283,913	-	(103,451)	2,180,462	-
<b>Total governmental activities</b>	<b>\$ 10,160,974</b>	<b>\$ 241,313</b>	<b>\$ (1,108,636)</b>	<b>\$ 9,293,651</b>	<b>\$ 1,024,155</b>
<b>Component units</b>					
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%	\$ 24,925,000	\$ -	\$ (1,210,000)	\$ 23,715,000	\$ 1,260,000
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	59,176	-	(59,176)	-	-
RLJ II MTT property tax refund	24,912	-	(24,912)	-	-
Financial guarantee	1,349,571	928,409	-	2,277,980	-
<b>Total component units</b>	<b>\$ 26,358,659</b>	<b>\$ 928,409</b>	<b>\$ (1,294,088)</b>	<b>\$ 25,992,980</b>	<b>\$ 1,260,000</b>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending June 30	Component Units	
	Principal	Interest
2017	\$ 1,260,000	\$ 1,082,214
2018	1,305,000	1,034,962
2019	1,360,000	982,762
2020	1,410,000	928,362
2021	1,470,000	870,200
2022-2026	8,710,000	3,078,624
2027-2031	8,200,000	1,107,314
	<u>\$ 23,715,000</u>	<u>\$ 9,084,438</u>

Compensated absences and separation accruals in governmental activities of \$433,919 are payable upon retirement or termination of eligible employees; therefore, specific payment dates are not determinable. Also, the landfill closure and postclosure cost accrual of \$2,180,462 has no fixed maturity dates; therefore; it has been excluded from the above summary.

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. The City has established a sick and vacation internal service fund for the liquidation of the compensated absences liability. The sanitation fund would be used to liquidate the landfill closure and post closure costs.

### *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 2016, total TIFA debt service amounted to \$2,336,076 of which \$928,409 was paid by the City and \$1,407,667 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 \$2,277,980 at June 30, 2016. This liability has been recorded as a long-term liability in the combining statement of net position for the discretely presented component units as funds to reimburse the general fund are not expected to be available until all TIFA debt service has been paid in full.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 8. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	<b>Governmental Activities</b>
Cash and investments -	
Landfill closure and postclosure costs	<u>\$ 2,520,916</u>

### 9. LANDFILL - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and postclosure care costs as an expense in the government-wide statements in each period based on the acres of the entire permitted site used as of each balance sheet date. The \$2,180,462 reported as landfill closure and postclosure liability at June 30, 2016 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, 2016. 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, 2016, investments and deposits held in trust of \$2,520,916 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.

### 10. 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 medical, dental and workers' compensation, the City was fully insured in the last three fiscal years. However, for prior years in which the City was not fully insured, a liability is estimated for workers' compensation claims that have been reported as well as those that have not yet been reported. As of June 30, 2016, reported claims related to medical and dental for prior years have been paid and no additional claims are expected to be reported.

These liabilities are recorded in internal service funds. Changes in the estimated liability for the past two fiscal years were as follow:

	General Liability		Workers' Compensation	
	2016	2015	2016	2015
Unpaid claims -				
Beginning of year	\$ 1,564,719	\$ 1,850,000	\$ 1,407,782	\$ 1,750,000
Incurred claims (adjustments)	(743,493)	234,390	58,608	177,239
Claim payments	(429,958)	(519,671)	(453,190)	(519,457)
Unpaid claims -				
End of year	<u>\$ 391,268</u>	<u>\$ 1,564,719</u>	<u>\$ 1,013,200</u>	<u>\$ 1,407,782</u>

### 11. 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.

*Method Used to Value Investments.* Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals or audited financial statements. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management. These estimates are determined using financial statements issued by the private equity companies or limited partnerships in which such investments are held, adjusted by management as deemed appropriate based on known circumstances.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

Approximately 11 percent of the System's assets are not publicly traded, and therefore do not have a readily determinable market value. Because these alternative investments are not readily marketable, their estimated value is subject to uncertainty, and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

*Investment Policy.* The System's policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board of trustees to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

*Rate of Return.* For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -0.84%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Benefits Provided.* The System provides retirement benefits as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their retirement allowance, pursuant to the collective bargaining agreement or employment agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City ordinance and negotiations with the employees' collective bargaining units.

*Contributions.* Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the board of trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2015, the active members were not required to contribute to the System. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not have to make a contribution to the System in the current year. Administrative costs are financed through investment earnings.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Employees Covered by Benefit Terms.* At December 31, 2015, plan membership consisted of the following:

Retirees and beneficiaries	1,106
Inactive employees entitled to but not yet receiving benefits	213
Active plan members	<u>30</u>
 Total membership	 <u><u>1,349</u></u>

The plan is closed to all new hires after April 1, 2013, except for those new hires that are hired under the the Michigan Association of Public Employees (representing the 50th District Court employees) collective bargaining agreement.

*Reserves.* In accordance with state law, the City establishes reserves for various purposes. The balance of the reserve accounts at December 31, 2015 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 238,749,619
Employee reserve	722,620

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2015.

*Actuarial Assumptions.* The total pension asset was determined by an actuarial valuation as of December 31, 2015, which used update procedures to roll forward the estimated asset as of December 31, 2014, to December 31, 2015. The valuation used the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.75%
Salary increases	4.5-9.4%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Blue Collar Mortality Table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - Large Cap	25.00%	5.30%
Domestic equity - Mid Cap	20.00%	6.00%
Domestic equity - Small Cap	10.00%	6.50%
International Equity	15.00%	5.80%
Fixed-income - Domestic Investment Grade	20.00%	1.80%
Fixed-income - High-yield	5.00%	4.10%
Private equity	5.00%	7.60%
	100.00%	

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that City of Pontiac contributions will be made at actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in the Net Pension Asset.* The components of the change in the net pension asset are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2014	\$ 270,139,151	\$ 491,726,796	\$ (221,587,645)
Changes for the year:			
Service cost	314,272	-	314,272
Interest	19,232,034	-	19,232,034
Changes in benefit terms	5,407,365	-	5,407,365
Differences between expected and actual experience	(23,548,600)	-	(23,548,600)
Changes in assumptions	9,124,140	-	9,124,140
Benefit payments, including refunds of employee contributions	(28,052,593)	(28,052,593)	-
Net investment income (loss)	-	(3,414,613)	3,414,613
Administrative expense	-	(954,593)	954,593
Miscellaneous other charges/revenue	-	37,357	(37,357)
Net changes	(17,523,382)	(32,384,442)	14,861,060
Balances at December 31, 2015	\$ 252,615,769	\$ 459,342,354	\$ (206,726,585)

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net pension asset of the City, calculated using the discount rate of 7.5%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension asset	\$ (182,824,385)	\$ (206,726,585)	\$ (228,655,295)

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is provided in Note 17.

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended June 30, 2016, the City recognized a reduction of pension expense of (\$15,522,069). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 1,997,765	\$ (1,997,765)
Net difference between projected and actual earnings on pension plan investments	35,126,316	-	35,126,316
Total	<u>\$ 35,126,316</u>	<u>\$ 1,997,765</u>	<u>\$ 33,128,551</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2017	\$ 8,824,625
2018	8,824,625
2019	8,824,625
2020	7,571,254
2021	(270,297)
Thereafter	<u>(646,281)</u>
Total	<u>\$ 33,128,551</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 12. 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.

*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 the executive orders issued by the Emergency Manager. As of March 1, 2012, the City contracted with Waterford Township to provide fire services and the plan no longer had any active employees. As a result, the 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.

*Method Used to Value Investments.* Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on audited financial statements. Investments that do not have an established market value are reported based on estimated fair values. These estimates are determined using financial statements issued by the private equity companies in which such investments are held, adjusted by management as deemed appropriate based on known circumstances.

Approximately \$107,000,000, or 47.63%, of the System's net position are not publicly traded and therefore, do not have a readily determinable market value. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

*Investment Policy.* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy aims to maintain a target asset mix with some ability to rebalance the mix of order to meet the investment objectives.

*Rate of Return.* For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments was 0.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Benefits Provided.* The retirement system provides retirement benefits, as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement or employment agreement in effect at their date of retirement. The obligation to contribute to and maintain the retirement system was established by City ordinance and negotiations with the employees' collective bargaining units.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Contributions.* Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with City ordinance, union contracts, and plan provision. For the year ended December 31, 2015, the City of Pontiac's required and actual contribution was \$2,327,949. There were no contributions due from members during fiscal year 2015.

*Employees Covered by Benefit Terms.* At December 31, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	437
Inactive employees entitled to but not yet receiving benefits	<u>151</u>
 Total membership	 <u><u>588</u></u>

*Reserves.* As of December 31, 2015, the Plan's legally required reserves have been fully funded. The balance of the reserve accounts at December 31, 2015 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 204,442,118
Employer reserve	1,534,573

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2015.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2015. The valuation used the following actuarial assumptions, applied to all periods included in the measurement (there are no assumptions related to inflation and salary increases as there was a partial termination and plan closure in 2011):

Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Cost of living adjustments	2.0%, per year of retirement

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2015.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	46.00%	7.32%
International equity	15.00%	8.29%
Domestic bonds	25.00%	2.44%
International bonds	5.00%	3.41%
Real estate	9.00%	4.39%
	<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that City's contributions will be made at actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in the Net Pension Liability.* The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 245,437,446	\$ 240,784,930	\$ 4,652,516
Changes for the year:			
Interest	17,667,136	-	17,667,136
Changes in benefit terms	1,179,108	-	1,179,108
Differences between expected and actual experience	4,777,253	-	4,777,253
Employer contributions	-	2,327,949	(2,327,949)
Changes of assumptions	3,437,195	-	3,437,195
Benefit payments, including refunds of employee contributions	(19,751,254)	(19,751,254)	-
Net investment income	-	1,600,942	(1,600,942)
Administrative expense	-	(328,225)	328,225
Other	-	1,020	(1,020)
Net changes	<u>7,309,438</u>	<u>(16,149,568)</u>	<u>23,459,006</u>
Balances at December 31, 2015	<u>\$ 252,746,884</u>	<u>\$ 224,635,362</u>	<u>\$ 28,111,522</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the City, calculated using the discount rate of 7.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	\$ 55,259,880	\$ 28,111,522	\$ 3,596,411

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is provided in Note 17.

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended June 30, 2016, the City recognized pension expense of \$11,589,568. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 14,068,914	\$ -	\$ 14,068,914
Contributions subsequent to measurement date	2,041,923	-	2,041,923
Total	<u>\$ 16,110,837</u>	<u>\$ -</u>	<u>\$ 16,110,837</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2017	\$ 3,636,819
2018	3,636,819
2019	3,636,819
2020	<u>3,158,457</u>
Total	<u>\$ 14,068,914</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 13. 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 nine percent of the employees' gross earnings and employees are required to contribute three percent. Additionally, in the current year, the City of Pontiac entered into a Defined Contribution Plan agreement with the Municipal Employees' Retirement System of Michigan (MERS). The Agreement is to provide retirement benefits effective August 1, 2015 for all full-time employees of the City and 50th District Court hired as full time after January 1, 2011 and not a member of GERS. The Employer/Employee contribution are listed below. Vesting is immediate. Employer contributions for each employee plus interest allocated to the employees' account are immediately vested.

Employee contribution	Employer contribution
0.33%	0.67%
1.00%	0.50%
2.00%	1.00%
4.00%	2.00%
5.00%	2.50%
6.00%	3.00%
8.00%	4.00%
10.00%	5.00%
12.00%	6.00%
14.00%	7.00%

The City's total payroll during the current year was \$2,736,196. The current year contribution was calculated based on covered payroll of \$1,102,190, resulting in employer contributions of \$44,218 and employee contributions of \$80,934. As of June 30, 2016, there were 19 plan participants in the City's Michigan Employee MERS defined contribution plan, and one employee participating in the City's 401A defined contribution plan.

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

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 14. OTHER POSTEMPLOYMENT BENEFITS - POLICE AND FIRE RETIREMENT SYSTEM VEBA

*Plan Description.* The Police and Fire Retiree Prefunded Group Health and Insurance Trust (the “Trust”) was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, and who retired on or after August 22, 1996. 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 700 Tower Drive, Suite 300, Troy, Michigan 48098.

*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, 2016, 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 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 \$3,243,332. Contributions for 2012 are currently the subject of a separate lawsuit. No contributions were made for 2013 through 2016. As these years’ contributions may not be forthcoming, the contributions have not been reflected in the Trust’s financial statements.

*Funding Progress.* For the year ended June 30, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2016. 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	\$ 287,012
Interest on net OPEB obligation	1,609,797
Adjustment to annual required contribution	<u>(1,436,743)</u>
Net OPEB cost (expense)	<u>460,066</u>
Change in net OPEB obligation	460,066
Net OPEB obligation, beginning of year	<u>21,463,965</u>
Net OPEB obligation, end of year	<u>\$ 21,924,031</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 Annual OPEB Cost Contributed	Net OPEB Obligation
2014	12/31/2012	\$ 5,680,604	28.01%	\$ 19,334,826
2015	12/31/2013	2,240,622	4.98%	21,463,965
2016	1/1/2016	460,066	0.00%	21,924,031

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
1/1/16	\$ 38,711,305	\$ 42,101,033	\$ 3,389,728	91.95%	\$ -	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.

In the January 1, 2016 actuarial valuation, the entry-age actuarial-cost method was used. The actuarial assumptions included a 7.5% percent investment rate of return. The valuation also included a 4.5% to 8.0% percent rate assumption related to healthcare cost increases. The actuarial value of assets is set to equal the smoothed market value as of December 31, 2015. The UAAL is being amortized as a level dollar based on a closed group. The remaining amortization period at January 1, 2016 was 30 years.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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.

### 15. 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, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014. 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	\$ 10,940,117
Interest on net OPEB obligation	1,784,235
Adjustment to annual required contribution	<u>(854,629)</u>
Net OPEB cost (expense)	11,869,723
Contributions made	<u>(1,311,082)</u>
Change in net OPEB obligation	10,558,641
Net OPEB obligation, beginning of year	<u>44,605,881</u>
Net OPEB obligation, end of year	<u>\$ 55,164,522</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
2014	12/31/2012	\$ 10,923,035	39.61%	\$ 34,716,473
2015	12/31/2014	11,602,758	14.77%	44,605,881
2016	12/31/2014	11,869,723	11.05%	55,164,522

During fiscal year 2013, the General Employees' Retiree 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
12/31/14	\$ -	\$ 181,240,639	\$ 181,240,639	0.00%	\$ 1,125,878	16,097.7%

*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, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 10.0% annual increase for medical care inflation in the first year, decreasing in increments of 0.5% over the next 10 years to the ultimate 5.0% assumption. The assumed investment return rate was 4.0% percent. This rate assumes no prefunding. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 16. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT FUNDS

	Plan Net Position as of December 31, 2015			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 172	\$ 296,886	\$ 757,115	\$ 1,054,173
Investments at fair value:				
Money market funds	-	1,379,755	-	1,379,755
U.S. government obligations and agencies	-	29,068,750	1,250,142	30,318,892
Government agency notes and debentures	33,643,990	-	-	33,643,990
Mortgage-backed securities	-	-	1,173,478	1,173,478
Collateralized mortgage obligations	-	-	355,084	355,084
U.S government mortgage-backed securities	14,003,486	9,817,422	-	23,820,908
Commercial mortgage pools	4,631,380	-	-	4,631,380
Asset-backed securities	5,191,607	-	738,783	5,930,390
Corporate and other bonds	20,697,394	4,766,787	1,739,184	27,203,365
High-yield bonds	9,386,097	-	-	9,386,097
Foreign bonds and notes	-	-	20,174	20,174
Limited partnerships	35,081,312	32,194,670	-	67,275,982
Domestic stock	-	133,411,679	-	133,411,679
Foreign stock	-	-	-	-
Short-term investments	14,420,541	-	618,725	15,039,266
Foreign equity mutual fund	-	-	-	-
Equities	-	-	29,376,904	29,376,904
Domestic equities	287,891,538	-	-	287,891,538
Private equities	13,812,729	-	-	13,812,729
Foreign equities	20,204,685	-	-	20,204,685
Real estate	-	13,455,186	-	13,455,186
Real estate investment trusts	-	-	457,062	457,062
Private placement bonds	-	-	106,649	106,649
Accrued interest and dividends receivable	1,088,070	402,856	42,011	1,532,937
Due from broker	-	-	45,587	45,587
Other receivables	3,775	-	-	3,775
Due from Police and Fire Retirement System VEBA	-	86,983	-	86,983
<b>Total assets</b>	<b>460,056,776</b>	<b>224,880,974</b>	<b>36,680,898</b>	<b>721,618,648</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

Plan Net Position as of December 31, 2015				
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Liabilities (continued)				
Due to City of Pontiac	\$ -	\$ -	\$ 72,778	\$ 72,778
Due to Police and Fire Retirement System	-	-	86,983	86,983
Accounts payable and other	714,422	245,612	34,417	994,451
<b>Total liabilities</b>	<b>714,422</b>	<b>245,612</b>	<b>194,178</b>	<b>1,154,212</b>
Net position held in trust for pension and other employee benefits	\$ 459,342,354	\$ 224,635,362	\$ 36,486,720	\$ 720,464,436

concluded.

Changes in Plan Net Position for the Year Ended December 31, 2015				
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Additions				
Investment income:				
Interest and dividend income	\$ 9,616,993	\$ 5,405,060	\$ 679,296	\$ 15,701,349
Net decrease in fair value	(10,305,650)	(2,923,480)	(1,667,737)	(14,896,867)
Less investment related expenses	(2,725,956)	(880,638)	(131,372)	(3,737,966)
Net investment income	(3,414,613)	1,600,942	(1,119,813)	(2,933,484)
Contributions:				
Employer	-	2,327,949	-	2,327,949
Employee	-	-	656,494	656,494
Total contributions	-	2,327,949	656,494	2,984,443
Miscellaneous and litigation revenue	37,358	937	16,156	54,451
<b>Total additions</b>	<b>(3,377,255)</b>	<b>3,929,828</b>	<b>(447,163)</b>	<b>105,410</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	Changes in Plan Net Position for the Year Ended December 31, 2015			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Deductions (continued)				
Retirees' pension benefits	\$ 28,052,593	\$ 19,751,254	\$ -	\$ 47,803,847
Retiree health benefit payments	-	-	2,347,878	2,347,878
Administrative expenses	954,593	328,225	61,325	1,344,143
<b>Total deductions</b>	<b>29,007,186</b>	<b>20,079,479</b>	<b>2,409,203</b>	<b>51,495,868</b>
<b>Change in net position</b>	<b>(32,384,441)</b>	<b>(16,149,651)</b>	<b>(2,856,366)</b>	<b>(51,390,458)</b>
Net position:				
Beginning of year	491,726,795	240,785,013	39,343,086	771,854,894
End of year	\$ 459,342,354	\$ 224,635,362	\$ 36,486,720	\$ 720,464,436

concluded.

## 17. CONTINGENT LIABILITIES

**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.

**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, except for the following matters:

**Board of Trustees Police and Fire VEBA vs. City of Pontiac.** The City has been in litigation with the Police and Fire VEBA Board of Trustees relating to an Emergency Manager order allowing the City to not make the annual contribution to the VEBA Trust for the period ending June 30, 2012. As of November 2016 this lawsuit is pending a decision by the Michigan Supreme Court. If ruled unfavorably to the City, the City could be required to contribute \$3 million to \$4 million to the Police and Fire VEBA for the period ending June 2012.

**Ottawa Towers vs. City of Pontiac.** The City has also been in litigation since 2012 over the City's plans to demolish the Phoenix Center Parking Garage. Ottawa Towers, a business owner utilizing the Parking Garage and structure sued the City to prevent the demolition. The lawsuit is currently with the Oakland County Circuit Court with a status conference scheduled for December 2016. If ruled unfavorably to the City, the Phoenix Center Parking Garage will remain as a structure owned and operated by the City, subject to all management, operating, capital and litigation costs.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 18. 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	District Court	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>						
Prepaid items	\$ 10,041	\$ -	\$ 41	\$ 4,893	\$ 712	\$ 15,687
<b>Restricted</b>						
Roads	-	4,616,720	-	-	3,073,304	7,690,024
Drug enforcement	-	-	-	-	244,576	244,576
Capital projects	-	-	-	-	1,169,131	1,169,131
Sanitation	-	-	5,205,389	-	-	5,205,389
Drains	-	-	-	-	99,340	99,340
Senior activities	-	-	-	-	959,849	959,849
Community development	-	-	-	-	4,972	4,972
Home buyers assistance	-	-	-	-	3,638	3,638
Cable television	-	-	-	-	1,096,717	1,096,717
Telecommunications	-	-	-	-	500	500
Building inspection	-	-	-	-	332,722	332,722
<b>Total restricted</b>	-	4,616,720	5,205,389	-	6,984,749	16,806,858
<b>Assigned</b>						
Capital projects	2,103,214	-	-	-	1,500,000	3,603,214
<b>Unassigned</b>	12,004,682	-	-	-	-	12,004,682
<b>Total fund balances</b>	<u>\$14,117,937</u>	<u>\$ 4,616,720</u>	<u>\$ 5,205,430</u>	<u>\$ 4,893</u>	<u>\$ 8,485,461</u>	<u>\$32,430,441</u>



## REQUIRED SUPPLEMENTARY INFORMATION

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information

### General Employees' Retirement System

#### Schedule of Changes in the City's Net Pension Liability (Asset) and Related Ratios

	Year Ended June 30,	
	2016	2015
Change in total pension liability		
Service cost	\$ 314,272	\$ 279,187
Interest	19,232,034	19,973,828
Changes in benefit terms	5,407,365	-
Differences between expected and actual experience	(23,548,600)	(2,538,358)
Changes in assumptions	9,124,140	-
Benefit payments, including refunds of member contributions	<u>(28,052,593)</u>	<u>(27,507,232)</u>
Net change in total pension liability	<u>(17,523,382)</u>	<u>(9,792,575)</u>
Total pension liability, beginning	<u>270,139,151</u>	<u>279,931,726</u>
Total pension liability, ending (a)	<u>252,615,769</u>	<u>270,139,151</u>
Change in plan fiduciary net position		
Net investment income (loss)	(3,414,613)	29,460,854
Benefit payments, including refunds of member contributions	(28,052,593)	(27,507,232)
Administrative expense	(954,593)	(699,715)
Other	37,357	-
Net change in plan fiduciary net position	<u>(32,384,442)</u>	<u>1,253,907</u>
Plan fiduciary net position, beginning	<u>491,726,796</u>	<u>490,472,889</u>
Plan fiduciary net position, ending (b)	<u>459,342,354</u>	<u>491,726,796</u>
City's net pension asset, ending (a)-(b)	<u><u>\$ (206,726,585)</u></u>	<u><u>\$ (221,587,645)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	181.83%	182.03%
Covered-employee payroll	\$ 1,528,731	\$ 1,478,241
City's net pension asset as a percentage of covered payroll	13,522.76%	14,989.95%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information General Employees' Retirement System

### Schedule of the Net Pension Asset

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Asset as Percentage of Covered Payroll
2015	\$270,139,151	\$ 491,726,796	\$ (221,587,645)	182.03%	\$ 1,478,241	14,989.95%
2016	252,615,769	459,342,354	(206,726,585)	181.83%	1,528,731	13,522.76%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information General Employees' Retirement System

### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ -	\$ -	\$ -	\$ 1,478,241	0.0%
2016	-	-	-	1,528,731	0.0%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

#### Notes to Schedule of Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2015.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	20% Phase-in method
Inflation	2.75% plus age-related merit increase
Salary increases	4.5- 9.4% (includes inflation)
Investment rate of return	7.5%
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality rates	RP-2014 Blue Collar, with general improvements using the MP-2015 scale
Other information	Post -retirement adjustment Hospital no cost of living adjustment MAPE - 2.5% of original retirement income for 14 years PMEA - 2.0% of original retirement income for 14 years All others - 2.0% of original retirement income for 18 years

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information General Employees' Retirement System

### Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return <sup>(1)</sup>
2015	6.76%
2016	-0.84%

<sup>(1)</sup> Annual money-weighted rate of return, net of investment expenses

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information

### Police and Fire Retirement System

#### Schedule of Changes in the City's Net Pension Liability and Related Ratios

	Year Ended June 30,	
	2016	2015
Change in total pension liability		
Interest	\$ 17,667,136	\$ 17,801,885
Changes in benefit terms	1,179,108	-
Differences between expected and actual experience	4,777,253	67,662
Changes in assumptions	3,437,195	-
Benefit payments, including refunds of member contributions	(19,751,254)	(19,581,140)
Net change in total pension liability	7,309,438	(1,711,593)
Total pension liability, beginning	245,437,446	247,149,039
Total pension liability, ending (a)	252,746,884	245,437,446
Change in plan fiduciary net position		
Contributions - employer	2,327,949	901,797
Net investment income	1,600,942	15,235,786
Benefit payments, including refunds of member contributions	(19,751,254)	(19,581,140)
Administrative expense	(328,225)	(332,389)
Other	1,020	40,671
Net change in plan fiduciary net position	(16,149,568)	(3,735,275)
Plan fiduciary net position, beginning	240,784,930	244,520,205
Plan fiduciary net position, ending (b)	224,635,362	240,784,930
City's net pension liability, ending (a)-(b)	\$ 28,111,522	\$ 4,652,516
Plan fiduciary net position as a percentage of the total pension liability	88.88%	98.10%
Covered-employee payroll	\$ -	\$ -
City's net pension liability as a percentage of covered payroll	0.00%	0.00%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information  
Police and Fire Retirement System

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$245,437,446	\$ 240,784,930	\$ 4,652,516	98.10%	\$ -	0.00%
2016	252,746,884	224,635,362	28,111,522	88.88%	-	0.00%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information Police and Fire Retirement System

### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 901,797	\$ 901,797	\$ -	\$ -	0.0%
2016	2,327,949	2,327,949	-	-	0.0%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

#### Notes to Schedule of Contributions

Valuation date                      Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2015.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry age cost
Amortization method	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	20% write-up
Inflation	0.0%
Salary increases	N/A
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Mortality rates	RP-2014 Blue Collar, with general improvements using MP-2015 scale
Other information	Cost-of-living adjustments are 2.0% of original pension amounts at retirement for certain plan members and applied to years of retirement

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information Police and Fire Retirement System

### Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return <sup>(1)</sup>
2015	6.22%
2016	0.38%

<sup>(1)</sup> Annual money-weighted rate of return

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

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)
12/31/2009	\$ 32,313,276	\$ 125,406,797	\$ 93,093,521	25.8%	\$ 7,405,796	1,257.0%
12/31/2010	34,821,105	115,446,247	80,625,142	30.2%	6,667,866	1,209.2%
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
12/31/2013****	36,229,622	61,628,696	25,399,074	58.8%	-	n/a
1/1/2016*****	38,711,305	42,101,033	3,389,728	91.9%	-	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.

\*\*\* Outstanding contributions related to 2010, 2011 and 2012 that were not remitted by the plan sponsor are not included in the asset value in the 12/31/12 valuation.

\*\*\*\* Outstanding contributions related to 2010, 2011, 2012 and 2013 that were not remitted by the plan sponsor are not included in the asset value in the 12/31/13 valuation.

\*\*\*\*\* Outstanding contributions related to 2012, 2013, 2014, and 2015 that were not remitted by the plan sponsor are not included in the asset value in the December 31, 2015 valuation.

Schedule of Employer Contributions		
Year Ended June 30	Annual Required Contribution (ARC) ***	Amount Contributed *
2011	6,598,669	-
2012	6,570,422	3,243,332 **
2013	5,663,685	-
2014	3,919,277	-
2015	5,079,102	-
2016	287,012	-

\* 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	Smoothed market value
Actuarial assumptions:	
Alternate investment rate of return	5.0%
Medical inflation rate, graded down in 0.5% increments over 12 years	4.5-8.0%

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	14,466.9%
12/31/2014	-	181,240,639	181,240,639	0.0%	1,125,878	16,097.7%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
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	43.0%
2015	12/31/2014	10,940,117	15.7%
2016	12/31/2014	10,940,117	12.0%

\* 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.

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes and special assessments	\$ 18,149,668	\$ 18,149,668	\$ 19,752,600	\$ 1,602,932
Federal revenue	-	-	14,448	14,448
State revenue	9,757,084	9,757,084	9,402,108	(354,976)
Charges for services	961,260	961,260	1,214,197	252,937
Fines and forfeitures	156,000	156,000	13,813	(142,187)
Licenses and permits	25,000	25,000	193,900	168,900
Interest and rental revenue	145,525	145,525	260,393	114,868
Other revenue	1,627,276	1,627,276	1,622,055	(5,221)
<b>Total revenues</b>	<b>30,821,813</b>	<b>30,821,813</b>	<b>32,473,514</b>	<b>1,651,701</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	4,085,548	4,194,034	3,526,379	(667,655)
Public safety	18,752,673	18,755,855	18,193,966	(561,889)
Public works	1,596,681	1,579,740	1,294,814	(284,926)
Community and economic development	2,251,901	2,100,403	1,677,685	(422,718)
Recreation and culture	407,703	583,765	309,990	(273,775)
Other expenditures	2,041,923	2,042,923	2,041,669	(1,254)
<b>Total expenditures</b>	<b>29,136,429</b>	<b>29,256,720</b>	<b>27,044,503</b>	<b>(2,212,217)</b>
<b>Revenues over expenditures</b>	<b>1,685,384</b>	<b>1,565,093</b>	<b>5,429,011</b>	<b>3,863,918</b>
<b>Other financing sources (uses)</b>				
Transfers in	240,000	240,000	248,303	8,303
Transfers out	(2,698,312)	(2,658,312)	(2,318,043)	(340,269)
<b>Total other financing sources (uses)</b>	<b>(2,458,312)</b>	<b>(2,418,312)</b>	<b>(2,069,740)</b>	<b>(331,966)</b>
<b>Net change in fund balance</b>	<b>(772,928)</b>	<b>(853,219)</b>	<b>3,359,271</b>	<b>3,531,952</b>
<b>Fund balance, beginning of year</b>	<b>10,758,666</b>	<b>10,758,666</b>	<b>10,758,666</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 9,985,738</b>	<b>\$ 9,905,447</b>	<b>\$ 14,117,937</b>	<b>\$ 4,212,490</b>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

Major Streets Special Revenue Fund  
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
State revenue	\$ 3,460,000	\$ 3,460,000	\$ 3,846,384	\$ 386,384
Interest	1,000	1,000	16,235	15,235
Other revenue	-	-	199,948	199,948
<b>Total revenues</b>	<u>3,461,000</u>	<u>3,461,000</u>	<u>4,062,567</u>	<u>601,567</u>
<b>Expenditures</b>				
Public works	<u>3,612,203</u>	<u>3,614,078</u>	<u>2,129,064</u>	<u>(1,485,014)</u>
<b>Revenue over (under) expenditures</b>	<u>(151,203)</u>	<u>(153,078)</u>	<u>1,933,503</u>	<u>2,086,581</u>
<b>Other financing sources (uses)</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	<u>(471,000)</u>	<u>(471,000)</u>	<u>(471,000)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>(271,000)</u>	<u>(271,000)</u>	<u>(271,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>(422,203)</u>	<u>(424,078)</u>	<u>1,662,503</u>	<u>2,086,581</u>
<b>Fund balance, beginning of year</b>	<u>2,954,217</u>	<u>2,954,217</u>	<u>2,954,217</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 2,532,014</u>	<u>\$ 2,530,139</u>	<u>\$ 4,616,720</u>	<u>\$ 2,086,581</u>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

Sanitation Special Revenue Fund  
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes and special assessments	\$ 1,495,345	\$ 1,495,345	\$ 1,632,698	\$ 137,353
Charges for services	2,305,000	2,305,000	2,338,669	33,669
Interest	1,050	1,050	11,244	10,194
	<u>3,801,395</u>	<u>3,801,395</u>	<u>3,982,611</u>	<u>181,216</u>
<b>Total revenues</b>				
	3,801,395	3,801,395	3,982,611	181,216
<b>Expenditures</b>				
Public works	4,804,157	4,805,232	3,558,055	(1,247,177)
	<u>4,804,157</u>	<u>4,805,232</u>	<u>3,558,055</u>	<u>(1,247,177)</u>
<b>Net change in fund balance</b>	(1,002,762)	(1,003,837)	424,556	1,428,393
<b>Fund balance, beginning of year</b>	4,780,874	4,780,874	4,780,874	-
	<u>4,780,874</u>	<u>4,780,874</u>	<u>4,780,874</u>	<u>-</u>
<b>Fund balance, end of year</b>	\$ 3,778,112	\$ 3,777,037	\$ 5,205,430	\$ 1,428,393
	<u>\$ 3,778,112</u>	<u>\$ 3,777,037</u>	<u>\$ 5,205,430</u>	<u>\$ 1,428,393</u>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

District Court Special Revenue Fund  
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
State Revenue	\$ 182,896	\$ 182,896	\$ 182,096	\$ (800)
Charges for services	788,250	788,250	637,903	(150,347)
Fines and forfeitures	991,715	991,715	1,083,214	91,499
Interest	-	-	1,333	1,333
<b>Total revenues</b>	<b>1,962,861</b>	<b>1,962,861</b>	<b>1,904,546</b>	<b>(58,315)</b>
<b>Expenditures</b>				
District court	2,869,263	2,885,263	2,544,309	(340,954)
<b>Other financing sources (uses)</b>				
Transfers in	958,312	958,312	618,043	(340,269)
Transfers out	(50,000)	(34,000)	(20,427)	(54,427)
<b>Total other financing sources (uses)</b>	<b>908,312</b>	<b>924,312</b>	<b>597,616</b>	<b>(394,696)</b>
<b>Net change in fund balance</b>	<b>1,910</b>	<b>1,910</b>	<b>(42,147)</b>	<b>(112,057)</b>
<b>Fund balance, beginning of year</b>	<b>47,040</b>	<b>47,040</b>	<b>47,040</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 48,950</b>	<b>\$ 48,950</b>	<b>\$ 4,893</b>	<b>\$ (44,057)</b>

# CITY OF PONTIAC, MICHIGAN

## ■ Note to Required Supplementary 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 final budget is adopted by June 30 each year. City Council adopted the final budget for the June 30, 2016 year end.

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.



## OTHER SUPPLEMENTAL INFORMATION

# CITY OF PONTIAC, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Funds				
	Local Streets	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
<b>Assets</b>					
Cash and investments	\$ 3,205,373	\$ 500	\$ 99,340	\$ 4,972	\$ 3,638
Accounts receivable	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-
Interest receivable	-	-	-	-	-
Due from other governments	261,228	227,876	-	-	-
Prepays	-	-	-	-	-
<b>Total assets</b>	<b>\$ 3,466,601</b>	<b>\$ 228,376</b>	<b>\$ 99,340</b>	<b>\$ 4,972</b>	<b>\$ 3,638</b>
<b>Liabilities</b>					
Accounts payable	\$ 391,705	\$ -	\$ -	\$ -	\$ -
Accrued wages	1,592	-	-	-	-
Due to other governments	-	-	-	-	-
Due to other funds	-	227,876	-	-	-
Deposits payable	-	-	-	-	-
<b>Total liabilities</b>	<b>393,297</b>	<b>227,876</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred inflows of resources</b>					
Unavailable revenue	-	-	-	-	-
<b>Fund balances</b>					
Nonspendable	-	-	-	-	-
Restricted	3,073,304	500	99,340	4,972	3,638
Assigned	-	-	-	-	-
<b>Total fund balances</b>	<b>3,073,304</b>	<b>500</b>	<b>99,340</b>	<b>4,972</b>	<b>3,638</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,466,601</b>	<b>\$ 228,376</b>	<b>\$ 99,340</b>	<b>\$ 4,972</b>	<b>\$ 3,638</b>

Special Revenue Funds				Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Capital Improvement	Total
\$ 995,747	\$ 247,367	\$ 1,065,799	\$ 528,886	\$ 2,822,800	\$ 8,974,422
-	-	43,706	-	-	43,706
7,003	-	-	-	18,827	25,830
885	28	-	-	-	913
-	-	-	-	-	489,104
382	-	186	144	-	712
<u>\$ 1,004,017</u>	<u>\$ 247,395</u>	<u>\$ 1,109,691</u>	<u>\$ 529,030</u>	<u>\$ 2,841,627</u>	<u>\$ 9,534,687</u>
\$ 10,179	\$ 2,791	\$ 9,489	\$ 196,164	\$ 62,820	\$ 673,148
6,514	-	3,299	-	-	11,405
23,539	-	-	-	104,755	128,294
-	-	-	-	-	227,876
600	-	-	-	-	600
<u>40,832</u>	<u>2,791</u>	<u>12,788</u>	<u>196,164</u>	<u>167,575</u>	<u>1,041,323</u>
<u>2,954</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>4,921</u>	<u>7,903</u>
382	-	186	144	-	712
959,849	244,576	1,096,717	332,722	1,169,131	6,984,749
-	-	-	-	1,500,000	1,500,000
<u>960,231</u>	<u>244,576</u>	<u>1,096,903</u>	<u>332,866</u>	<u>2,669,131</u>	<u>8,485,461</u>
<u>\$ 1,004,017</u>	<u>\$ 247,395</u>	<u>\$ 1,109,691</u>	<u>\$ 529,030</u>	<u>\$ 2,841,627</u>	<u>\$ 9,534,687</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2016

	Special Revenue Funds				
	Local Streets	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
<b>Revenues</b>					
Taxes and special assessments	\$ -	\$ -	\$ 11	\$ -	\$ -
State revenue	1,425,046	227,876	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Licenses and permits	-	500	-	-	-
Interest	8,309	-	1,137	-	-
Other revenue	-	-	-	-	3,638
<b>Total revenues</b>	<b>1,433,355</b>	<b>228,376</b>	<b>1,148</b>	<b>-</b>	<b>3,638</b>
<b>Expenditures</b>					
Current expenditures:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	1,096,750	-	300,980	-	-
Community and human services	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<b>1,096,750</b>	<b>-</b>	<b>300,980</b>	<b>-</b>	<b>-</b>
<b>Revenues over (under) expenditures</b>	<b>336,605</b>	<b>228,376</b>	<b>(299,832)</b>	<b>-</b>	<b>3,638</b>
<b>Other financing sources (uses)</b>					
Transfers in	471,000	-	-	-	-
Transfers out	-	(227,876)	-	-	-
<b>Total other financing sources (uses)</b>	<b>471,000</b>	<b>(227,876)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>807,605</b>	<b>500</b>	<b>(299,832)</b>	<b>-</b>	<b>3,638</b>
<b>Fund balances, beginning of year</b>					
	2,265,699	-	399,172	4,972	-
<b>Fund balances, end of year</b>	<b>\$ 3,073,304</b>	<b>\$ 500</b>	<b>\$ 99,340</b>	<b>\$ 4,972</b>	<b>\$ 3,638</b>

Special Revenue Funds				Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Capital Improvement	Total
\$ 299,586	\$ -	\$ -	\$ -	\$ 857,852	\$ 1,157,449
-	-	-	-	-	1,652,922
-	-	-	75,778	-	75,778
-	35,837	-	-	-	35,837
-	-	-	2,265,917	-	2,266,417
19,653	552	2,954	1,123	4,617	38,345
400	-	190,936	-	-	194,974
<u>319,639</u>	<u>36,389</u>	<u>193,890</u>	<u>2,342,818</u>	<u>862,469</u>	<u>5,421,722</u>
-	-	194,892	-	-	194,892
-	57,924	-	2,009,952	-	2,067,876
-	-	-	-	-	1,397,730
367,277	-	-	-	-	367,277
-	-	-	-	355,305	355,305
<u>367,277</u>	<u>57,924</u>	<u>194,892</u>	<u>2,009,952</u>	<u>355,305</u>	<u>4,383,080</u>
<u>(47,638)</u>	<u>(21,535)</u>	<u>(1,002)</u>	<u>332,866</u>	<u>507,164</u>	<u>1,038,642</u>
-	-	-	-	1,500,000	1,971,000
-	-	-	-	-	(227,876)
-	-	-	-	1,500,000	1,743,124
<u>(47,638)</u>	<u>(21,535)</u>	<u>(1,002)</u>	<u>332,866</u>	<u>2,007,164</u>	<u>2,781,766</u>
<u>1,007,869</u>	<u>266,111</u>	<u>1,097,905</u>	<u>-</u>	<u>661,967</u>	<u>5,703,695</u>
<u>\$ 960,231</u>	<u>\$ 244,576</u>	<u>\$ 1,096,903</u>	<u>\$ 332,866</u>	<u>\$ 2,669,131</u>	<u>\$ 8,485,461</u>

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Net Position

Internal Service Funds

June 30, 2016

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 1,983,707	\$ 541,240	\$ 433,919	\$ 2,958,866
Accounts receivable	87,722	520,410	-	608,132
Due from other governments	-	92,619	-	92,619
Interest receivable	-	483	-	483
Prepays	32,423	3,137,403	-	3,169,826
<b>Total assets</b>	<b>2,103,852</b>	<b>4,292,155</b>	<b>433,919</b>	<b>6,829,926</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	33,233	12,937	-	46,170
Accrued liabilities	1,013,200	391,268	-	1,404,468
Accrued wages	-	1,558	-	1,558
Current portion of compensated absences	-	-	103,915	103,915
<b>Total current liabilities</b>	<b>1,046,433</b>	<b>405,763</b>	<b>103,915</b>	<b>1,556,111</b>
Noncurrent liabilities - Compensated absences	-	-	330,004	330,004
<b>Total liabilities</b>	<b>1,046,433</b>	<b>405,763</b>	<b>433,919</b>	<b>1,886,115</b>
<b>Net position</b>				
Unrestricted	\$ 1,057,419	\$ 3,886,392	\$ -	\$ 4,943,811

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Net Position

Internal Service Funds

For the Year Ended June 30, 2016

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	\$ 458,178	\$ 4,496,026	\$ -	\$ 4,954,204
Operating expenses				
Insurance	-	3,257,766	-	3,257,766
Workers' compensation expense - net of change in liability	129,772	-	-	129,772
Miscellaneous expense	-	-	1,792	1,792
Total operating expenses	129,772	3,257,766	1,792	3,389,330
Operating income (loss)	328,406	1,238,260	(1,792)	1,564,874
Nonoperating revenue				
Interest income	7,203	2,426	1,475	11,104
Change in net position	335,609	1,240,686	(317)	1,575,978
Net position, beginning of year	721,810	2,645,706	317	3,367,833
Net position, end of year	\$ 1,057,419	\$ 3,886,392	\$ -	\$ 4,943,811

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2016

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Cash flows from operating activities</b>				
Cash received from interfund services	\$ 416,975	\$ 4,452,125	\$ (1,792)	\$ 4,867,308
Cash payments for goods and services	(555,930)	(5,202,074)	-	(5,758,004)
Cash payments to employees	-	512	(74,127)	(73,615)
<b>Net cash used in operating activities</b>	<b>(138,955)</b>	<b>(749,437)</b>	<b>(75,919)</b>	<b>(964,311)</b>
<b>Cash flows from investing activities</b>				
Interest income	7,203	2,426	1,475	11,104
<b>Net change in cash and investments</b>	<b>(131,752)</b>	<b>(747,011)</b>	<b>(74,444)</b>	<b>(953,207)</b>
Cash and investments, beginning of year	2,115,459	1,288,251	508,363	3,912,073
<b>Cash and investments, end of year</b>	<b>\$ 1,983,707</b>	<b>\$ 541,240</b>	<b>\$ 433,919</b>	<b>\$ 2,958,866</b>
<b>Reconciliation of operating income (loss)</b>				
<b>to net cash used in operating activities</b>				
Operating income (loss)	\$ 328,406	\$ 1,238,260	\$ (1,792)	\$ 1,564,874
<b>Adjustments to reconcile operating loss</b>				
<b>to net cash used in operating activities</b>				
<b>Change in:</b>				
Accounts receivable	(41,203)	(43,901)	-	(85,104)
Due from other governments	-	(73,742)	-	(73,742)
Interest receivable	-	(483)	-	(483)
Prepays	(7,344)	(693,943)	-	(701,287)
Accounts payable	(24,232)	8,316	-	(15,916)
Accrued liabilities	(394,582)	(1,173,451)	-	(1,568,033)
Accrued wages	-	512	-	512
Unearned revenue	-	(11,005)	-	(11,005)
Compensated absences	-	-	(74,127)	(74,127)
<b>Net cash used in operating activities</b>	<b>\$ (138,955)</b>	<b>\$ (749,437)</b>	<b>\$ (75,919)</b>	<b>\$ (964,311)</b>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds  
June 30, 2016

	District Court- Agency	Current Tax Collection	Fire Insurance	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 114,395	\$ 19,145	\$ 337,900	\$ 471,440
<b>Liabilities</b>				
Accounts payable	\$ 672	\$ 2,914	\$ -	\$ 3,586
Due to other governments	-	16,231	-	16,231
Deposits payable	113,723	-	337,900	451,623
<b>Total liabilities</b>	<b>\$ 114,395</b>	<b>\$ 19,145</b>	<b>\$ 337,900</b>	<b>\$ 471,440</b>

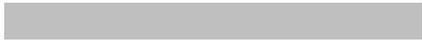
# CITY OF PONTIAC, MICHIGAN

## Combining Balance Sheet

Component Units

June 30, 2016

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
<b>Assets</b>				
Cash and investments	\$ 83,357	\$ 386,310	\$ 466,093	\$ 935,760
Property taxes receivable - net	802	7,983	2,135	10,920
<b>Total assets</b>	<b>\$ 84,159</b>	<b>\$ 394,293</b>	<b>\$ 468,228</b>	<b>\$ 946,680</b>
<b>Liabilities</b>				
Accounts payable	\$ 3,464	\$ 23,646	\$ -	\$ 27,110
Due to other governments	79,894	115,673	466,093	661,660
Financial guarantee	1,660,944	617,036	-	2,277,980
<b>Total liabilities</b>	<b>1,744,302</b>	<b>756,355</b>	<b>466,093</b>	<b>2,966,750</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue	802	7,983	2,135	10,920
<b>Fund balances</b>				
Unassigned (deficit)	(1,660,945)	(370,045)	-	(2,030,990)
<b>Total fund balances (deficit)</b>	<b>(1,660,945)</b>	<b>(370,045)</b>	<b>-</b>	<b>(2,030,990)</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 84,159</b>	<b>\$ 394,293</b>	<b>\$ 468,228</b>	<b>\$ 946,680</b>



Brownfield Redevelopment Authority	Total
\$ 257,342	\$ 1,193,102
-	10,920
<u>\$ 257,342</u>	<u>\$ 1,204,022</u>
\$ -	\$ 27,110
2,651	664,311
-	2,277,980
<u>2,651</u>	<u>2,969,401</u>
-	10,920
<u>254,691</u>	<u>(1,776,299)</u>
<u>254,691</u>	<u>(1,776,299)</u>
<u>\$ 257,342</u>	<u>\$ 1,204,022</u>

# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
Component Units  
For the Year Ended June 30, 2016

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances (deficits) for component units	\$ (1,660,945)	\$ (370,045)	\$ -	\$ (2,030,990)
Amounts reported for <i>component units</i> in the statement of net position are different because:				
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	802	7,983	2,135	10,920
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.				
	-	639,633	-	639,633
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	(18,928)	(166,107)	-	(185,035)
Bonds payable	(2,570,000)	(21,145,000)	-	(23,715,000)
Net position for component units	<u>\$ (4,249,071)</u>	<u>\$ (21,033,536)</u>	<u>\$ 2,135</u>	<u>\$ (25,280,472)</u>



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

\$ 254,691	\$ (1,776,299)
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-	10,920
---	--------

-	639,633
---	---------

-	(185,035)
---	-----------

-	(23,715,000)
---	--------------

<u>\$ 254,691</u>	<u>\$ (25,025,781)</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, 2016

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
<b>Revenues</b>				
Taxes	\$ 13,763	\$ 1,355,602	\$ (11,564)	\$ 1,357,801
Contributions from primary government	517,455	410,954	-	928,409
Other revenue	38,300	-	-	38,300
<b>Total revenues</b>	<b>569,518</b>	<b>1,766,556</b>	<b>(11,564)</b>	<b>2,324,510</b>
<b>Expenditures</b>				
Commercial and industrial development	-	-	-	-
Financial guarantee	517,455	410,954	-	928,409
Debt service:				
Principal	440,000	770,000	-	1,210,000
Interest and fiscal charges	129,519	996,557	-	1,126,076
<b>Total expenditures</b>	<b>1,086,974</b>	<b>2,177,511</b>	<b>-</b>	<b>3,264,485</b>
<b>Net change in fund balances</b>	<b>(517,456)</b>	<b>(410,955)</b>	<b>(11,564)</b>	<b>(939,975)</b>
Fund balances (deficit), beginning of year	(1,143,489)	40,910	11,564	(1,091,015)
<b>Fund balances (deficit), end of year</b>	<b>\$ (1,660,945)</b>	<b>\$ (370,045)</b>	<b>\$ -</b>	<b>\$ (2,030,990)</b>



Brownfield Redevelopment Authority	Total
\$ 33,338	\$ 1,391,139
-	928,409
-	38,300
<hr/>	<hr/>
33,338	2,357,848
<hr/>	<hr/>
587	587
-	928,409
-	1,210,000
-	1,126,076
<hr/>	<hr/>
587	3,265,072
<hr/>	<hr/>
32,751	(907,224)
221,940	(869,075)
<hr/>	<hr/>
\$ 254,691	\$ (1,776,299)
<hr/> <hr/>	<hr/> <hr/>

# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
Component Units  
June 30, 2016

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	\$ (517,456)	\$ (410,955)	\$ (11,564)	\$ (939,975)
Amounts reported for <i>component units</i> in the statement of activities are different because:				
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.				
	(602)	(1,112)	(1,012)	(2,726)
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	440,000	770,000	-	1,210,000
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	2,658	-	-	2,658
Change in deferred loss on refunding	-	(42,656)	-	(42,656)
Change in property tax settlements	84,088	-	-	84,088
Change in net position of component units	<u>\$ 8,688</u>	<u>\$ 315,277</u>	<u>\$ (12,576)</u>	<u>\$ 311,389</u>



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

\$ 32,751	\$ (907,224)
-----------	--------------

-	(2,726)
---	---------

-	1,210,000
---	-----------

-	2,658
---	-------

-	(42,656)
---	----------

-	84,088
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<u>\$ 32,751</u>	<u>\$ 344,140</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 5, 2016

To the Honorable Mayor and 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, 2016, 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 5, 2016. 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

**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, 2016

None noted.



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