

City of Pontiac,
Michigan



Year Ended
June 30, 2017

Financial
Statements

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CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 6, 2017

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, 2017, 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 and the Police and Fire Retiree Prefunded Group Health and Insurance Trust 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 and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of June 30, 2017, 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.

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, and 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 is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was 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 6, 2017, 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 "Rehmann 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, 2017. 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	\$262,777,826
· Change in total net position	(19,407,149)
· Fund balances, governmental funds	36,138,317
· Change in fund balances, governmental funds	3,707,876
· Unassigned fund balance, general fund	14,067,839
· Change in fund balance, general fund	2,955,838
· Long-term debt outstanding	10,034,431
· Change in long-term debt	740,780

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 and 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 two legally separate Tax Increment Finance Authorities 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 the City budget ordinance, the City is required to adopt 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. Beginning in fiscal year 2018, the City has begun to adopt a three-year 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 general fund and 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 and prior years:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 253,417,263	\$ 251,728,472	\$ 4,653,789	\$ 4,560,812	\$ 258,071,052	\$ 256,289,284
Capital assets, net	87,175,421	86,556,263	10,422,476	11,118,254	97,597,897	97,674,517
Total assets	340,592,684	338,284,735	15,076,265	15,679,066	355,668,949	353,963,801
Deferred outflows of resources	35,187,542	50,816,561	296,911	420,592	35,484,453	51,237,153
Liabilities						
Current and other liabilities	115,793,427	111,209,700	820,250	514,863	116,613,677	111,724,563
Long-term debt outstanding	10,034,431	9,293,651	-	-	10,034,431	9,293,651
Total liabilities	125,827,858	120,503,351	820,250	514,863	126,648,108	121,018,214
Deferred inflows of resources	1,711,437	1,978,409	16,031	19,356	1,727,468	1,997,765
Net position:						
Investment in capital assets	87,175,421	86,556,263	10,422,476	11,118,254	97,597,897	97,674,517
Restricted	15,387,174	14,667,566	-	-	15,387,174	14,667,566
Unrestricted	145,678,336	165,395,707	4,114,419	4,447,185	149,792,755	169,842,892
Total net position	\$ 248,240,931	\$ 266,619,536	\$ 14,536,895	\$ 15,565,439	\$ 262,777,826	\$ 282,184,975

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 \$262,777,856 at the close of the most recent fiscal year. \$97,597,897 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.

An additional portion of the City's net position, \$15,387,174, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$149,792,755 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 \$19,407,149 from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. During the current fiscal year, net position for governmental activities decreased \$18,378,605 from the prior fiscal year for an ending balance of \$248,240,931. This decrease is mainly the aggregate of changes due to recording the full accrual cost of the City's pension systems of \$20,143,481 and other post-employment benefit liability of \$2,862,083, for a total decrease of \$23,005,564.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

During fiscal year 2017, the net pension asset and related deferred inflows and outflows of the general employee retirement system decreased \$14,815,071 for governmental activities (\$184,529 related to enterprise activities). This was due to expenses related to services costs, interest on the total pension liability, and administrative and other miscellaneous costs of \$18,946,939 and net amortization expense of \$29,640,954 for total expenses of \$48,407,893. This expense was offset by investment earnings of \$33,408,293, for a net change of \$14,999,600.

The net pension liability and related deferred outflow of the police and fire retirement system decreased \$5,328,410. This was due to expenses related to interest on the total pension liability, changes in benefit terms, experience differences, changes in actuarial assumptions, amortization expense and administrative and other miscellaneous costs in the aggregate total of \$23,202,642. This expense was offset by investment earnings of \$16,100,605 and contributions from the City of \$1,773,627, for a net change of \$5,328,410.

The City's other post-employment benefit liability increased by \$2,862,083, which is mainly due to withdrawals to health insurance premiums for retirees from the VEBA trust of \$2,461,415.

The above total decrease of \$23,005,564 related to the City's full accrual of the pension systems and other postemployment benefit liability is offset by an increase in cash and investments of \$4,908,491 for a net decrease of \$18,378,605.

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 \$1,028,544 from the prior fiscal year for an ending balance of \$14,536,895. This is the result of depreciation of capital assets of \$564,860 and the recording of the OPEB liability expense (\$249,794) and pension expense (\$375,486).

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 4,209,249	\$ 7,277,544	\$ 90,971	\$ 116,007	\$ 4,300,220	\$ 7,393,551
Operating grants	10,289,906	8,135,687	-	429	10,289,906	8,136,116
Capital grants	2,582,654	-	-	-	2,582,654	-
General revenues:						
Property taxes	11,088,160	10,588,890	-	-	11,088,160	10,588,890
Income taxes	13,493,026	12,213,622	-	-	13,493,026	12,213,622
Unrestricted state shared revenues	9,619,180	9,361,266	-	-	9,619,180	9,361,266
Unrestricted investment earnings	171,057	219,122	14,067	28,807	185,124	247,929
Cable franchise fees	579,222	609,148	-	-	579,222	609,148
Gain on sale of assets	-	-	99,083	-	99,083	-
Total revenues	52,032,454	48,405,279	204,121	145,243	52,236,575	48,550,522

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CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Expenses:						
General government	\$ 20,484,864	\$ 1,554,462	\$ -	\$ -	\$ 20,484,864	\$ 1,554,462
Public safety	28,122,205	34,857,700	-	-	28,122,205	34,857,700
Public works	18,552,300	10,416,217	-	-	18,552,300	10,416,217
Community development	2,415,431	991,296	-	-	2,415,431	991,296
Community and human services	365,979	462,425	-	-	365,979	462,425
Recreation and culture	470,280	175,349	-	-	470,280	175,349
Parking	-	-	1,232,665	509,436	1,232,665	509,436
Total expenses	70,411,059	48,457,449	1,232,665	509,436	71,643,724	48,966,885
Change in net position	(18,378,605)	(52,170)	(1,028,544)	(364,193)	(19,407,149)	(416,363)
Net position:						
Beginning of year	266,619,536	266,671,706	15,565,439	15,929,632	282,184,975	282,601,338
End of year	<u>\$ 248,240,931</u>	<u>\$ 266,619,536</u>	<u>\$ 14,536,895</u>	<u>\$ 15,565,439</u>	<u>\$ 262,777,826</u>	<u>\$ 282,184,975</u>

concluded.

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, 2017, the City's governmental funds reported combined fund balances of \$36,138,317 an increase of \$3,707,876 in comparison with the prior year. Approximately 39% of this amount, \$14,067,839, 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 (\$16,809), 2) restricted for particular purposes (\$16,733,441), 3) committed for particular purposes (\$179,582), or 4) assigned for particular purposes (\$5,140,646).

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 \$14,067,839, while total fund balance increased to \$17,073,775. 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 48% of the total general fund expenditures, while total fund balance represents approximately 58% of that same amount.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

The fund balance of the City's general fund for fiscal year 2017 was \$17,073,775, an increase of \$2,955,838 from the prior fiscal year. The increase was mainly due to the City collecting \$1,484,456 additional income tax receipts, net of refunds as compared to prior year. Other revenue sources that increased compared to prior year were the personal property tax exemption reimbursement (\$351,101) and state shared revenue (\$257,914). In addition, the City's annual required contribution to the Police and Fire Pension System decreased by \$286,296 from the prior year. The City also incurred less expenditures than budgeted in the functions of general government and recreation and culture by a combined amount of approximately \$600,000.

The major street fund, a major fund, had a \$1,799,095 decrease in fund balance during the current fiscal year which decreased the overall fund balance to \$2,817,625. This is a result of one time additional expenditures on capital road projects as compared to prior year. Major road projects for fiscal year 2017 were Paddock Road and North Saginaw Street.

The sanitation fund, a major fund, had a \$494,304 increase in fund balance during the current fiscal year which increased the overall fund balance to \$5,699,734. The increase in fund balance was caused by the City incurring less expenditures for sanitation services.

The district court fund, a major fund, had a \$4,229 decrease in fund balance during the current fiscal year which decreased the fund balance to \$664. 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 \$14,536,895. The total decrease in net position for the proprietary funds was \$1,028,544 (parking fund is the only propriety fund of the City). This was primarily caused by an increase of pension and other postemployment benefit liability of \$625,280 and depreciation of capital assets of \$564,860. This was offset by a capital gain of \$99,086 as a result of the sale of the McLaren Parking lot to McLaren Hospital.

General Fund Budgetary Highlights

Original budget compared to final budget. Over the course of the year, the City amended the budget twice to take into account events during the year. The significant portion of which was for use of unused appropriations for capital outlay from the previous fiscal year. The amendment was adopted by the City Council, Transition Advisory Board and State Treasurer, to recognize changes in assumptions since the original budget.

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 \$3,596,837 which is mostly due to property tax collections exceeding the final budget estimates by approximately \$251,291 and income tax collections exceeding final budget estimates by \$2,049,466. Property tax chargebacks were less than anticipated by \$547,344 causing actual revenue to be more than budget. Finally, the City received \$551,112 for the 2016 personal property tax reimbursement which was not budgeted for.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

- Total expenditures came in \$1,160,832 less than budgeted. Significant savings resulted from less than anticipated expenditures for the following:
 - Oakland County Sheriff expenditures were less than anticipated due to a new contract signed after the budget was approved by City Council that had smaller increase than budgeted.
 - Blight court was not constituted during the fiscal year as anticipated.
 - TIFA contributions from the general fund were less than budgeted due to higher than anticipated property tax capture.
 - Community development personnel expenditures were less than anticipated due to the community development director position being vacant for ten months of the fiscal year.
 - Parks and grounds maintenance expenditures were less than budgeted due to milder than normal winter conditions.

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, 2017, amounts to \$97,597,897 (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	
	2017	2016	2017	2016	2017	2016
Land	\$ 25,105,058	\$ 24,495,058	\$ 3,042,537	\$ 3,173,454	\$ 28,147,595	\$ 27,668,512
Construction in progress	2,533,927	364,293	-	-	2,533,927	364,293
Streets and bridges	58,070,026	59,766,829	-	-	58,070,026	59,766,829
Buildings and improvements	784,320	1,189,449	7,379,939	7,944,800	8,164,259	9,134,249
Machinery and equipment	319,940	356,233	-	-	319,940	356,233
Vehicles	141,719	146,410	-	-	141,719	146,410
Land improvements	220,431	237,991	-	-	220,431	237,991
Total	\$ 87,175,421	\$ 86,556,263	\$ 10,422,476	\$ 11,118,254	\$ 97,597,897	\$ 97,674,517

Additional information on the City's capital assets can be found in Note 5 of the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total indebtedness of \$10,034,431.

The City's total indebtedness increased by \$740,780 during the current fiscal year primarily due to the increase 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 \$68.3 million.

Additional information on the City's long-term debt can be found in Note 7 of the financial statements.

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. The City's second largest source of revenue is from City, Village, and Township revenue sharing. 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 County's October land sale resulted in a chargeback significantly less than anticipated.
- Significant new construction projects are in process of being developed in the City, mainly funded by the gas & weight tax and a transfer from the general fund's accumulated fund balance.
- 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 \$27,000 for family coverage by January 1, 2017. 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 since 2015.
- Because of improving economic conditions, sales prices in the housing market are steadily increasing.
- The City is significantly reducing the amount of dilapidated 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. 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). As of March 2017, the City and the Retirees Association (CPREA) have entered into a tentative agreement (that was approved by the Pontiac City Council) and if approved by federal court and IRS, will resolve the City's obligation to provide health insurance to current and future retirees.

The City plans to use \$2,990,646 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.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Statement of Net Position
June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and investments	\$ 38,374,881	\$ 2,498,973	\$ 40,873,854	\$ 651,822
Receivables, net	9,002,863	2,498	9,005,361	26,358
Other assets	4,036,038	183,440	4,219,478	-
Restricted assets	2,462,146	-	2,462,146	-
Capital assets not being depreciated	27,638,985	3,042,537	30,681,522	-
Capital assets being depreciated, net	59,536,436	7,379,939	66,916,375	-
Net pension asset	199,541,335	1,968,878	201,510,213	-
Total assets	340,592,684	15,076,265	355,668,949	678,180
Deferred outflows of resources				
Deferred loss on refunding	-	-	-	596,991
Deferred pension amounts	35,187,542	296,911	35,484,453	-
Total deferred outflows of resources	35,187,542	296,911	35,484,453	596,991
Liabilities				
Accounts payable and accrued liabilities	8,600,898	66,311	8,667,209	320,182
Unearned revenue	2,652	-	2,652	-
Long-term liabilities:				
Due within one year	1,075,280	-	1,075,280	1,305,000
Due in more than one year	8,959,151	-	8,959,151	21,150,000
Financial guarantee	-	-	-	3,263,890
Net pension liability	27,740,757	-	27,740,757	-
Net other postemployment benefit obligation	79,449,120	753,939	80,203,059	-
Total liabilities	125,827,858	820,250	126,648,108	26,039,072
Deferred inflows of resources				
Deferred pension amounts	1,711,437	16,031	1,727,468	-
Net position				
Investment in capital assets	87,175,421	10,422,476	97,597,897	-
Restricted for:				
Roads	7,883,036	-	7,883,036	-
Drug enforcement	228,525	-	228,525	-
Capital projects	1,284,826	-	1,284,826	-
Sanitation	3,544,778	-	3,544,778	-
Drains	32,813	-	32,813	-
Senior activities	973,882	-	973,882	-
Community development	6,335	-	6,335	-
Home buyers assistance	3,638	-	3,638	-
Cable television	1,136,257	-	1,136,257	-
Telecommunications	33,460	-	33,460	-
Building Inspection	259,624	-	259,624	-
Unrestricted (deficit)	145,678,336	4,114,419	149,792,755	(24,763,901)
Total net position	\$ 248,240,931	\$ 14,536,895	\$ 262,777,826	\$ (24,763,901)

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

CITY OF PONTIAC, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 20,484,864	\$ 1,109,283	\$ 2,251,634	\$ -	\$ (17,123,947)
Public safety	28,122,205	274,018	2,006,138	-	(25,842,049)
Public works	18,552,300	2,611,357	5,717,786	1,969,886	(8,253,271)
Community development	2,415,431	164,753	305,078	612,768	(1,332,832)
Community and human services	365,979	-	-	-	(365,979)
Recreation and culture	470,280	49,838	9,270	-	(411,172)
Total governmental activities	70,411,059	4,209,249	10,289,906	2,582,654	(53,329,250)
Business-type activities -					
Parking fund	1,232,665	90,971	-	-	(1,141,694)
Total primary government	\$ 71,643,724	\$ 4,300,220	\$ 10,289,906	\$ 2,582,654	\$ (54,470,944)
Component units					
Tax Increment Financing Authority	\$ 2,098,224	\$ -	\$ 985,910	\$ -	\$ (1,112,314)
Brownfield Redevelopment Authority	28,985	-	-	-	(28,985)
Total component units	\$ 2,127,209	\$ -	\$ 985,910	\$ -	\$ (1,141,299)

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (53,329,250)	\$ (1,141,694)	\$ (54,470,944)	\$ (1,141,299)
General revenues				
Property taxes	11,088,160	-	11,088,160	1,365,179
Income taxes	13,493,026	-	13,493,026	-
State-shared revenue (unrestricted)	9,619,180	-	9,619,180	-
Unrestricted investment earnings	171,057	14,067	185,124	-
Cable franchise fees	579,222	-	579,222	-
Other general revenues	-	-	-	38,000
Gain on sale of capital assets	-	99,083	99,083	-
Transfers	-	-	-	-
Total general revenues	34,950,645	113,150	35,063,795	1,403,179
Change in net position	(18,378,605)	(1,028,544)	(19,407,149)	261,880
Net position, beginning of year	266,619,536	15,565,439	282,184,975	(25,025,781)
Net position, end of year	\$ 248,240,931	\$ 14,536,895	\$ 262,777,826	\$ (24,763,901)

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, 2017

	General	Major Streets	Sanitation	District Court
Assets				
Cash and investments	\$ 17,652,769	\$ 2,458,600	\$ 3,719,797	\$ 451,850
Accounts receivable, net	548,459	806,443	110,114	-
Taxes receivable, net	4,173,724	-	9,610	-
Interest receivable	16,638	2,223	-	-
Due from other governments	1,638,034	779,315	-	-
Due from other funds	478,656	-	-	-
Prepays	15,290	-	2	664
Restricted assets	-	-	2,462,146	-
Total assets	\$ 24,523,570	\$ 4,046,581	\$ 6,301,669	\$ 452,514
Liabilities				
Accounts payable	\$ 2,949,389	\$ 425,869	\$ 279,462	\$ 103,928
Accrued wages	79,354	864	909	59,266
Due to other governments	792,129	-	310,173	-
Due to other funds	-	-	-	288,656
Deposits payable	452,656	-	-	-
Unearned revenue	2,652	-	-	-
Total liabilities	4,276,180	426,733	590,544	451,850
Deferred inflows of resources				
Unavailable revenue	3,173,615	802,223	11,391	-
Fund balances				
Nonspendable	15,290	-	2	664
Restricted	-	2,817,625	5,699,732	-
Committed	-	-	-	-
Assigned	2,990,646	-	-	-
Unassigned	14,067,839	-	-	-
Total fund balances	17,073,775	2,817,625	5,699,734	664
Total liabilities, deferred inflows of resources and fund balances	\$ 24,523,570	\$ 4,046,581	\$ 6,301,669	\$ 452,514

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



Nonmajor Governmental Funds	Totals
\$ 11,020,456	\$ 35,303,472
40,152	1,505,168
5,799	4,189,133
704	19,565
459,967	2,877,316
-	478,656
853	16,809
-	2,462,146
<u>\$ 11,527,931</u>	<u>\$ 46,852,265</u>
\$ 652,204	\$ 4,410,852
12,376	152,769
120,833	1,223,135
190,000	478,656
200	452,856
-	2,652
<u>975,613</u>	<u>6,720,920</u>
<u>5,799</u>	<u>3,993,028</u>
853	16,809
8,216,084	16,733,441
179,582	179,582
2,150,000	5,140,646
-	14,067,839
<u>10,546,519</u>	<u>36,138,317</u>
<u>\$ 11,527,931</u>	<u>\$ 46,852,265</u>

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CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$ 36,138,317
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	27,638,985
Capital assets being depreciated	332,607,140
Accumulated depreciation	(273,070,704)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	
	3,993,028
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	(27,740,757)
Net pension asset	199,541,335
Deferred outflows related to the net pension asset and liability	35,187,542
Deferred inflows related to the net pension asset and liability	(1,711,437)
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.	
	4,689,347
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(7,416,398)
Landfill closure and postclosure costs	(2,166,347)
Net other postemployment benefit obligation	(79,449,120)
Net position of governmental activities	<u>\$ 248,240,931</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, 2017

	General	Major Streets	Sanitation	District Court
Revenues				
Property taxes and special assessments	\$ 8,309,157	\$ -	\$ 1,624,939	\$ -
Income taxes	13,140,072	-	-	-
Federal revenue	103,934	-	-	-
State revenue	10,075,245	4,028,749	-	182,896
Charges for services	1,017,944	5,471	2,308,924	695,800
Fines and forfeitures	8,000	-	-	1,119,394
Licenses and permits	198,301	-	-	-
Interest and rental revenue	262,495	18,540	11,481	1,524
Other revenue	1,459,723	455,792	-	-
Total revenues	34,574,871	4,508,552	3,945,344	1,999,614
Expenditures				
Current:				
General government	3,952,913	-	-	-
District court	-	-	-	2,565,362
Public safety	19,065,874	-	-	-
Public works	1,796,517	5,836,647	3,451,040	-
Community and economic development	2,288,303	-	-	-
Community and human services	-	-	-	-
Recreation and culture	470,280	-	-	-
Other expenditures	1,773,627	-	-	-
Capital outlay	-	-	-	-
Total expenditures	29,347,514	5,836,647	3,451,040	2,565,362
Revenues over (under) expenditures	5,227,357	(1,328,095)	494,304	(565,748)
Other financing sources (uses)				
Transfers in	211,977	-	-	583,496
Transfers out	(2,483,496)	(471,000)	-	(21,977)
Total other financing sources (uses)	(2,271,519)	(471,000)	-	561,519
Net changes in fund balances	2,955,838	(1,799,095)	494,304	(4,229)
Fund balances, beginning of year	14,117,937	4,616,720	5,205,430	4,893
Fund balances, end of year	\$ 17,073,775	\$ 2,817,625	\$ 5,699,734	\$ 664

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



Nonmajor Governmental Funds	Totals
\$ 1,157,184	\$ 11,091,280
-	13,140,072
1,363	105,297
1,492,766	15,779,656
60,097	4,088,236
30,990	1,158,384
1,633,202	1,831,503
46,538	340,578
163,449	2,078,964
<u>4,585,589</u>	<u>49,613,970</u>
196,506	4,149,419
-	2,565,362
1,814,214	20,880,088
1,587,199	12,671,403
-	2,288,303
306,585	306,585
-	470,280
-	1,773,627
801,027	801,027
<u>4,705,531</u>	<u>45,906,094</u>
<u>(119,942)</u>	<u>3,707,876</u>
2,371,000	3,166,473
<u>(190,000)</u>	<u>(3,166,473)</u>
<u>2,181,000</u>	<u>-</u>
2,061,058	3,707,876
<u>8,485,461</u>	<u>32,430,441</u>
<u>\$ 10,546,519</u>	<u>\$ 36,138,317</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, 2017

Net changes in fund balances - total governmental funds	\$ 3,707,876
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	5,520,044
Depreciation expense	(4,900,886)
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.	1,277,402
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	(2,862,083)
Change in net pension asset/liability	(20,143,481)
Change in financial guarantee	(737,128)
Change in landfill closure and postclosure liability	14,115
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>(254,464)</u>
Change in net position of governmental activities	<u><u>\$ (18,378,605)</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, 2017

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments	\$ 2,498,973	\$ 3,071,409
Accounts receivable	-	385,446
Due from other governments	-	26,235
Interest receivable	2,498	-
Prepays	183,440	4,019,229
Total current assets	<u>2,684,911</u>	<u>7,502,319</u>
Noncurrent assets:		
Capital assets not being depreciated	3,042,537	-
Capital assets being depreciated, net	7,379,939	-
Net pension asset	1,968,878	-
Total noncurrent assets	<u>12,391,354</u>	<u>-</u>
Total assets	<u>15,076,265</u>	<u>7,502,319</u>
Deferred outflows of resources		
Deferred pension amounts	<u>296,911</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	64,581	52,687
Accrued liabilities	-	2,306,846
Accrued wages	-	1,753
Due to other governments	1,730	-
Current portion of compensated absences	-	120,848
Total current liabilities	<u>66,311</u>	<u>2,482,134</u>
Noncurrent liabilities:		
Net other postemployment benefit obligation	753,939	-
Compensated absences	-	330,838
Total noncurrent liabilities	<u>753,939</u>	<u>330,838</u>
Total liabilities	<u>820,250</u>	<u>2,812,972</u>
Deferred inflows of resources		
Deferred pension amounts	<u>16,031</u>	<u>-</u>
Net position		
Investment in capital assets	10,422,476	-
Unrestricted	<u>4,114,419</u>	<u>4,689,347</u>
Total net position	<u>\$ 14,536,895</u>	<u>\$ 4,689,347</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, 2017

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ 90,971	\$ 5,690,245
Operating expenses		
Insurance	-	4,879,748
Operating and maintenance costs	667,804	-
Workers' compensation expense	-	1,072,776
Depreciation	564,861	-
Miscellaneous expense	-	1,227
Total operating expenses	1,232,665	5,953,751
Operating loss	(1,141,694)	(263,506)
Nonoperating revenues		
Interest income	14,067	9,042
Gain on sale of capital assets	99,083	-
Total nonoperating revenues	113,150	9,042
Change in net position	(1,028,544)	(254,464)
Net position, beginning of year	15,565,439	4,943,811
Net position, end of year	\$ 14,536,895	\$ 4,689,347

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, 2017

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 94,916	\$ -
Cash payments to suppliers	(177,888)	(5,790,881)
Cash payments to employees	-	(17,805)
Cash received from interfund services	-	5,911,704
Net cash provided (used) by operating activities	<u>(82,972)</u>	<u>103,018</u>
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	230,000	-
Cash flows from investing activities		
Interest income received	<u>11,569</u>	<u>9,525</u>
Net change in cash and investments	158,597	112,543
Cash and investments, beginning of year	<u>2,340,376</u>	<u>2,958,866</u>
Cash and investments, end of year	<u>\$ 2,498,973</u>	<u>\$ 3,071,409</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (1,141,694)	\$ (263,506)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	564,861	-
Change in:		
Accounts receivable	3,945	222,686
Due from other governments	-	66,384
Prepays	-	(849,403)
Net pension asset and deferred amounts	184,529	-
Accounts payable	54,261	6,517
Accrued liabilities	-	902,378
Accrued wages	-	195
Due to other governments	(1,297)	-
Net other postemployment benefit obligation	252,423	-
Compensated absences	-	17,767
Net cash provided (used) by operating activities	<u>\$ (82,972)</u>	<u>\$ 103,018</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, 2016	June 30, 2017
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 2,806,151	\$ 462,504
Investments at fair value:		
U.S. government obligations and agencies	924,440	-
Government agency notes and debentures	38,640,291	-
Mortgage-backed securities	1,168,850	-
Collateralized mortgage obligations	206,572	-
U.S government securities	22,286,610	-
U.S government mortgage-backed securities	21,679,511	-
Commercial mortgage pools	5,260,245	-
Asset-backed securities	5,561,638	-
Corporate and other bonds	36,818,731	-
State and local bonds	10,730,447	-
Foreign bonds and notes	120,162	-
Limited partnerships	90,721,664	-
Domestic stock	135,590,946	-
Short-term investments	19,099,418	-
Equities	23,133,160	-
Domestic equities	282,318,729	-
Private equities	13,503,583	-
Real estate	16,328,057	-
Real estate investment trusts	722,980	-
Private placement bonds	66,591	-
Accrued interest and dividends receivable	1,447,988	-
Due from broker	77,116	-
Other receivables	9,623	-
Prepaid expenses and other assets	4,867	-
Due from Police and Fire Retirement System VEBA	86,983	-
Total assets	729,315,353	\$ 462,504

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position Fiduciary Funds

	December 31, 2016	June 30, 2017
	Pension and Other Postemployment Trust Funds	Agency Funds
Liabilities		
Due to City of Pontiac	\$ 72,778	\$ -
Due to Police and Fire Retirement System	86,698	-
Accounts payable and other	1,520,811	425
Deposits payable	-	462,079
	<hr/>	<hr/>
Total liabilities	1,680,287	\$ 462,504
Net position restricted for		
Pension benefits	689,209,329	
Other postemployment benefits	38,425,737	
	<hr/>	
Total net position	\$ 727,635,066	

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, 2016

	Pension and Other Postemployment Trust Funds
Additions	
Investment income:	
Interest and dividend income	\$ 12,699,729
Net increase in fair value	47,781,756
Less investment expenses	<u>(3,624,154)</u>
Net investment income	56,857,331
Contributions - Employer	2,041,923
Miscellaneous and litigation revenue	<u>40,571</u>
Total additions	<u>58,939,825</u>
Deductions	
Retirees' pension benefits	48,808,217
Retiree health benefit payments	1,908,558
Administrative expenses	<u>1,052,420</u>
Total deductions	<u>51,769,195</u>
Change in net position	7,170,630
Net position, beginning of year	<u>720,464,436</u>
Net position, end of year	<u><u>\$ 727,635,066</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, 2017

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	\$ 362,198	\$ 289,624	\$ 651,822
Receivables, net	26,358	-	26,358
Total assets	388,556	289,624	678,180
Deferred outflows of resources			
Deferred loss on refunding	596,991	-	596,991
Liabilities			
Accounts payable and accrued liabilities	287,702	32,480	320,182
Long-term liabilities:			
Due within one year	1,305,000	-	1,305,000
Due in more than one year	21,150,000	-	21,150,000
Financial guarantee	3,263,890	-	3,263,890
Total liabilities	26,006,592	32,480	26,039,072
Net position			
Unrestricted (deficit)	\$ (25,021,045)	\$ 257,144	\$ (24,763,901)

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, 2017

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Commercial and industrial development	\$ -	\$ 28,985	\$ 28,985
Financial guarantee	985,910	-	985,910
Interest on long-term debt	1,112,314	-	1,112,314
Total expenses	2,098,224	28,985	2,127,209
Program revenues			
Operating grants and contributions	985,910	-	985,910
Net program (expense) revenue	(1,112,314)	(28,985)	(1,141,299)
General revenues			
Property taxes	1,333,741	31,438	1,365,179
Other general revenues	38,000	-	38,000
Total general revenues	1,371,741	31,438	1,403,179
Change in net position	259,427	2,453	261,880
Net position, beginning of year	(25,280,472)	254,691	(25,025,781)
Net position, end of year	\$ (25,021,045)	\$ 257,144	\$ (24,763,901)

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 Manager to run the City on March 19, 2009. This Emergency Manager served until June 30, 2010. A second Emergency Manager was appointed and served from July 4, 2010 to September 8, 2011. A third Emergency Manager 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, retained control and final say over major litigation cases and contracts in excess of \$500,000 as well as all budget amendments. On August 1, 2017, the State's Treasury Department announced that the Pontiac Receivership Transition Advisory Board would be dissolved and that effective immediately, city officials would once again have full power over Pontiac's internal operations and finances. 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 committed 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 and insurance benefits 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, 2017, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2016.

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 2016 tax is levied and collectible on July 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the City of Pontiac totaled approximately \$644 million (a portion of which is abated and a portion of which is captured by the TIFA and Brownfield), on which taxes levied consisted of 11.2737 mills for operating purposes, 2.8183 mills for refuse collection and disposal, 1.4091 mills for capital improvement and .5000 mills for senior activities. This resulted in \$6.85 million for operating, \$1.71 million for refuse collection and disposal, \$0.86 million for capital improvement and \$0.31 million for senior activities. These amounts are recognized in the respective general fund, special revenue fund, and capital projects fund financial statements as tax revenue.

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, 2017:

	Primary Government	Component Units	Total
Statement of net position			
Cash and investments	\$ 40,873,854	\$ 651,822	\$ 41,525,676
Restricted assets	2,462,146	-	2,462,146
Statement of fiduciary net position			
Cash and cash equivalents	3,268,655	-	3,268,655
Investments	724,882,625	-	724,882,625
Total	\$ 771,487,280	\$ 651,822	\$ 772,139,102
Bank deposits (demand accounts and certificates of deposit)			\$ 29,790,482
Investments in securities, mutual funds and similar vehicles:			
U.S. Treasury securities			991,110
Municipal bonds			2,055,907
Oakland County Local Government Investment Pool (LGIP)			11,524,027
Money markets			85,328
General Employees' Retirement System			465,813,074
Police and Fire Retirement System			222,919,794
Police and Fire Retirement System VEBA			38,955,908
Cash on hand			3,472
			<u>\$ 772,139,102</u>

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

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

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

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

The City, pension funds, and other employee benefit trust funds' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the Police and Fire Retirement System, General Employees' Retirement System and Police and Fire Retirement System VEBA balances as of December 31, 2016 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 \$30,317,463 of bank deposits (certificates of deposit, checking, and savings accounts) of which \$1,515,136 was covered by federal deposit insurance and \$2,462,146 was collateralized. 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 \$1,490,483 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 \$862,988 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, 2017, 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 average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (years)
Debt securities:		
U.S. treasury securities	\$ 991,110	4.00
Municipal bonds	1,755,145	0.84
Municipal bonds	300,762	1.42
Oakland County LGIP	11,524,027	1.33

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	\$ 8,072,773	1.19
Government mortgage-backed securities	7,252,030	11.68
Government bonds	14,213,837	8.54
Corporate bonds	9,580,396	6.33

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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	\$ 4,996,713	2.91
Commercial mortgage pools	5,186,771	28.58
Corporate bonds	25,436,065	7.96
Government agencies	2,496,613	10.98
Government bonds	31,208,891	6.99
Government mortgage-backed securities	14,427,481	24.91
Government issued commercial mortgage-backed securities	1,422,032	1.57
Index linked governmental bonds	3,512,755	8.05
Municipal/provincial bonds	10,730,447	4.66
Nongovernment-backed CMOs	73,474	18.86
Short-term investment funds	16,118,772	Unavailable

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	\$ 564,925	4.12
Corporate bonds	1,802,270	5.30
Collateralized mortgage obligations	206,572	31.34
Private placement	66,591	6.46
Foreign bonds	120,162	5.07
U.S. government:		
Agency	113,796	2.77
Mortgage-backed securities	1,168,850	26.04
Treasuries, notes and bonds	810,644	3.29

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 credit quality rating of debt securities and money market funds are as follows:

Investment	Fair Value	Rating	Rating Organization
Oakland County LGIP	\$ 11,524,027	Not rated	n/a
Municipal bonds	1,755,145	AA-	S&P
Municipal bonds	300,762	AA	S&P
Money markets	55,942	Not rated	n/a
Money markets	29,386	Not rated	n/a

Police and Fire Retirement System - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The PFRS's investment policy limits investments rated in the top four major grades as determined by Standard & Poor's or Moody's. As of year end, the credit quality rating of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 1,127,073	AA	S&P
Corporate bonds	4,308,264	A	S&P
Corporate bonds	4,145,059	BBB	S&P
Short-term investment funds	2,361,524	Not rated	n/a
Government agencies	8,072,773	AA	S&P

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; 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:

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	\$ 2,412,328	Aaa	Moody's
Asset-backed securities	194,987	Aa	Moody's
Asset-backed securities	256,521	A	Moody's
Asset-backed securities	2,132,877	Unrated	n/a
Commercial mortgage-backed securities	3,483,213	Aaa	Moody's
Commercial mortgage-backed securities	1,703,558	Aa	Moody's
Noncommercial mortgage-backed securities	3,729	A	Moody's
Noncommercial mortgage-backed securities	69,745	Unrated	n/a
Corporate bonds	1,233,095	Aa	Moody's
Corporate bonds	9,455,643	A	Moody's
Corporate bonds	14,388,412	Baa	Moody's
Corporate bonds	226,790	Ba	Moody's
Corporate bonds	132,125	Unrated	n/a
Governmental agencies	939,836	Aaa	Moody's
Governmental agencies	850,011	Aa	Moody's
Government bonds	34,721,647	Aaa	Moody's
Government mortgage backed	892,866	Unrated	n/a
Short-term investment funds	16,118,772	Unrated	n/a
Municipal/Provincial bonds	1,605,633	Aaa	Moody's
Municipal/Provincial bonds	4,041,776	Aa	Moody's
Municipal/Provincial bonds	5,083,038	Unrated	n/a

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
Corporate:			
Asset-backed securities	\$ 146,842	AAA	S&P
Asset-backed securities	100,084	AA	S&P
Asset-backed securities	84,967	A	S&P
Asset-backed securities	233,032	Not rated	n/a
Corporate bonds	40,136	AA	S&P
Corporate bonds	354,088	A	S&P
Corporate bonds	1,363,777	BBB	S&P
Corporate bonds	19,636	BB	S&P
Corporate bonds	24,633	Not rated	n/a
Collateralized mortgage obligations	206,572	Not rated	n/a
Private placement	66,591	BBB	S&P
Foreign bonds	120,162	BBB	S&P
U.S. government:			
Agency	113,796	AA	S&P
Mortgage-backed securities	1,168,850	Not rated	n/a
Treasuries, notes and bonds	810,664	Not rated	n/a

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Concentration of Credit Risk

City - The City's investment policy states that no more than 25 percent of the overall cash and investment portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. 25.6% of the City's cash and investment portfolio is in the Oakland County Local Government Investment Pool (the "LGIP").

At year end, the City had greater than 5% of its total investment portfolio concentrated as follows:

Investment Type	Issuer	% of Portfolio
Municipal bonds	Allendale Michigan Public School District	11.98

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.

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 10 percent of total pension system investments. At December 31, 2016, 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 \$21,127,079. At year end, the System had a total foreign currency translation loss of \$2,363,196 related to equity investments.

Security	Fair Value
Australian Dollar	\$ 1,414,367
British Pound	4,041,550
Canadian Dollar	1,046,401
Denmark Krone	2,682,464
European Euro	4,935,889
Hong Kong Dollar	1,280,517
Japanese Yen	1,994,663
Mexican Peso	463,410
South African Rand	802,414
Swiss Franc	2,465,404

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Fair Value Measurements

City - 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.

The City had the following recurring fair value measurements as of June 30, 2017:

	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, 2017
Debt securities:				
U.S. treasury securities (1)	\$ -	\$ 991,110	\$ -	\$ 991,110
Municipal bonds (1)	-	300,762	-	300,762
Municipal bonds (2)	-	1,755,145	-	1,755,145
Total investments at fair value	\$ -	\$ 3,047,017	\$ -	3,047,017
Investments measured at NAV				
Oakland county investments				11,524,027
Total investments				<u>\$ 14,571,044</u>

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.

Investments in Entities that Calculate Net Asset Value per Share

The City holds shares or interests in investment pools where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At the year ended June 30, 2017, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County LGIP	<u>\$ 11,524,027</u>	<u>\$ -</u>	No restrictions	None

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

Police and Fire Retirement System - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 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 December 31, 2016
Debt securities:				
U.S. government securities	\$ -	\$ 22,286,610	\$ -	\$ 22,286,610
U.S. government mortgage- backed securities	-	7,252,030	-	7,252,030
Corporate bonds	-	9,580,396	-	9,580,396
Equity securities - common stock	63,477,229	-	-	63,477,229
Real estate funds	-	-	2,358,242	2,358,242
Limited partnerships	-	-	19,926,264	19,926,264
Total investments at fair value	\$ 63,477,229	\$ 39,119,036	\$ 22,284,506	124,880,771
Investments measured at NAV				
Equities funds				72,113,718
Limited partnerships				7,900,973
Real estate funds				13,969,815
Total investments at NAV				93,984,506
Total investments				\$ 218,865,277

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at December 31, 2016 was determined primarily based on level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The fair value of real estate funds and limited partnerships at December 31, 2016 was determined primarily based on level 3 inputs. The System estimates the fair value of these investments based on a review of an independent auditor's report for each fund and the fund's General Partner's assessment of fair value. The General Partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equities funds	\$ 72,113,718	\$ -	Monthly	Up to 30 days
Limited partnerships	7,900,973	-	Monthly	15 days
Real estate funds	13,969,815	-	Quarterly	10 days
	<u>\$ 93,984,506</u>	<u>\$ -</u>		

The equities funds includes investments in U.S. and non U.S. publicly traded equities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The limited partnership is in a bond fund that invests predominantly in U.S. and foreign government securities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The equity real estate class includes investments in funds whose objective is to acquire, develop, own and operate a diversified portfolio of real estate investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

General Employees' Retirement System - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 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 December 31, 2016
Debt securities:				
U.S. treasury securities	\$ -	\$ 34,721,646	\$ -	\$ 34,721,646
U.S. agencies	-	2,496,613	-	2,496,613
Municipal/provincial	-	10,730,447	-	10,730,447
Commercial mortgage backed	-	5,260,245	-	5,260,245
Government issued commercial mortgage backed	-	1,422,032	-	1,422,032
U.S. government mortgage backed	-	14,427,481	-	14,427,481
Corporate bonds	-	25,436,065	-	25,436,065
Asset backed	-	4,996,713	-	4,996,713
Equity securities - common stock	282,318,729	-	-	282,318,729
Private equity funds	-	-	13,503,583	13,503,583
Total investments at fair value	\$ 282,318,729	\$ 99,491,242	\$ 13,503,583	395,313,554
Investments measured at NAV				
International equities fund				36,506,477
Global bond fund				17,874,092
Total investments at NAV				54,380,569
Total investments				\$ 449,694,123

Debt securities fair value at December 31, 2016 was determined primarily based on Level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices (which is the value of the bond less accrued interest) may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals, maturities, call features, and ratings, among other factors.

The fair value of private equity investments at December 31, 2016 was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments based on a review of an independent auditor's report for each fund and each fund's General Partner's assessment of fair value. The General Partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the underlying assets. Currently, there remains \$3.8 million in unfunded commitments to these funds.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
International equities fund	\$ 36,506,477	\$ -	Monthly	10 days
Global bond fund	17,874,092	-	Monthly	10 days
	<u>\$ 54,380,569</u>	<u>\$ -</u>		

The international equities fund includes investments in mainly non-U.S. publicly traded equities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The global bonds fund includes investments in investment grade fixed-income securities issued by U.S. and non-U.S. agencies and other governments, corporate, and other issuers. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The investments in private equity can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over the next seven to ten years. However, as of December 31, 2016, it is probable that all of the investments of this type will be sold at an amount different from fair value.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Police and Fire Retirement System VEBA - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 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 December 31, 2016
Debt securities:				
U.S. government obligations and agencies	\$ -	\$ 924,440	\$ -	\$ 924,440
Mortgage-backed securities	-	1,168,850	-	1,168,850
Collateralized mortgage obligations	-	206,572	-	206,572
Asset-backed securities	-	564,925	-	564,925
Corporate bonds	-	1,802,270	-	1,802,270
Foreign bonds and notes	-	120,162	-	120,162
Private placement bonds	-	66,591	-	66,591
Equity securities:				
Common stock	23,133,160	-	-	23,133,160
Real estate investment trusts	722,980	-	-	722,980
Limited partnerships	-	-	5,891,977	5,891,977
Total investments at fair value	\$ 23,856,140	\$ 4,853,810	\$ 5,891,977	34,601,927
Investments measured at NAV				
Bond fund				2,621,881
Total investments				\$ 37,223,808

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at December 31, 2016 was determined primarily based on Level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of limited partnerships at December 31, 2016 was determined primarily based on Level 3 inputs. The Trust estimates the fair value of these investments based on a review of an independent auditor's report for each fund and the fund's General Partner's assessment of fair value. The General Partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Bond fund	<u>\$ 2,621,881</u>	\$ -	Monthly	15 days

The bond fund is an investment in a fund that invest predominantly in U.S. and foreign government securities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

In addition, the Trust has an investment for approximately \$619,000 reported at amortized cost in accordance with GASB Statement No. 79. This investment is not subject to any limitations or restrictions on withdrawals.

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	\$ 14,672,661	\$ -
Accounts	1,923,638	-
Intergovernmental	2,903,551	-
Interest receivable	19,565	2,498
Less allowance for doubtful accounts	<u>(10,516,552)</u>	<u>-</u>
Net receivables	<u>\$ 9,002,863</u>	<u>\$ 2,498</u>

At June 30, 2017, approximately \$4.0 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, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 24,495,058	\$ 610,000	\$ -	\$ 25,105,058
Construction in progress	364,293	3,958,057	(1,788,423)	2,533,927
Total capital assets not being depreciated	<u>24,859,351</u>	<u>4,568,057</u>	<u>(1,788,423)</u>	<u>27,638,985</u>
Capital assets being depreciated:				
Streets and bridges	287,569,301	2,638,087	-	290,207,388
Buildings and improvements	40,648,275	-	-	40,648,275
Machinery and equipment	619,159	42,463	-	661,622
Vehicles	655,043	59,860	-	714,903
Land improvements	374,952	-	-	374,952
Total capital assets being depreciated	<u>329,866,730</u>	<u>2,740,410</u>	<u>-</u>	<u>332,607,140</u>
Less accumulated depreciation for:				
Streets and bridges	(227,802,472)	(4,334,890)	-	(232,137,362)
Buildings and improvements	(39,458,826)	(405,129)	-	(39,863,955)
Machinery and equipment	(262,926)	(78,756)	-	(341,682)
Vehicles	(508,633)	(64,551)	-	(573,184)
Land improvements	(136,961)	(17,560)	-	(154,521)
Total accumulated depreciation	<u>(268,169,818)</u>	<u>(4,900,886)</u>	<u>-</u>	<u>(273,070,704)</u>
Total capital assets being depreciated, net	<u>61,696,912</u>	<u>(2,160,476)</u>	<u>-</u>	<u>59,536,436</u>
Governmental activities capital assets, net	<u>\$ 86,556,263</u>	<u>\$ 2,407,581</u>	<u>\$ (1,788,423)</u>	<u>\$ 87,175,421</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Parking fund				
Capital assets not being depreciated -				
Land	\$ 3,173,454	\$ -	\$ (130,917)	\$ 3,042,537
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	(25,628,513)	(564,861)	-	(26,193,374)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(25,685,695)	(564,861)	-	(26,250,556)
Total capital assets being depreciated, net	7,944,800	(564,861)	-	7,379,939
Parking fund capital assets, net	\$ 11,118,254	\$ (564,861)	\$ (130,917)	\$ 10,422,476

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

Depreciation of governmental activities by function	
General government	\$ 389,840
Public safety	94,442
Public works	4,372,476
Community and human services	44,128
Total depreciation expense - governmental activities	\$ 4,900,886
Depreciation of business-type activities by function	
Parking	\$ 564,861

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

	Spent to Date	Remaining Commitment
Governmental activities:		
Geospatial Asset Management System	\$ 115,918	\$ 44,082
Saginaw Street Improvement	81,537	458,523
Michigan, Terry and Dresen	-	939,910
	\$ 197,455	\$ 1,442,515

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2017, the composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General fund	District court fund	\$ 288,656
	Nonmajor governmental funds	<u>190,000</u>
	Total general fund	<u>\$ 478,656</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, 2017, interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred from	Fund Transferred To	Amount
General fund	District court fund (2)	\$ 583,496
	Nonmajor governmental funds (1)	<u>1,900,000</u>
	Total general fund	2,483,496
Major street fund	Nonmajor governmental fund (3)	471,000
District court fund	General fund (4)	21,977
Nonmajor governmental fund	General fund (5)	<u>190,000</u>
	Total governmental funds	<u>\$ 3,166,473</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
Governmental activities					
Other long-term obligations:					
2007C TIFA Bond					
Financial Guarantee	\$ 6,679,270	\$ 1,723,038	\$ (985,910)	\$ 7,416,398	\$ 954,432
Compensated absences	433,919	17,767	-	451,686	120,848
Landfill closure and postclosure costs	2,180,462	-	(14,115)	2,166,347	-
Total governmental activities	\$ 9,293,651	\$ 1,740,805	\$ (1,000,025)	\$ 10,034,431	\$ 1,075,280
Component units					
Revenue bonds:					
\$31,080,000 2007 C TIFA Bonds, due in annual installments of \$590,000 to \$1,985,000 through the year 2031; interest at 3.50% to 5.00%	\$ 23,715,000	\$ -	\$ (1,260,000)	\$ 22,455,000	\$ 1,305,000
Other long-term obligation - Financial guarantee	2,277,980	985,910	-	3,263,890	-
Total component units	\$ 25,992,980	\$ 985,910	\$ (1,260,000)	\$ 25,718,890	\$ 1,305,000

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
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	1,860,000	796,698
2023-2027	8,595,000	2,655,288
2028-2031	6,455,000	733,952
	<u>\$ 22,455,000</u>	<u>\$ 8,002,224</u>

Compensated absences and separation accruals in governmental activities of \$451,686 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 \$2,166,347 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 2017, total TIFA debt service amounted to \$2,342,213 of which \$985,910 was paid by the City and \$1,356,303 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 \$3,263,890 at June 30, 2017. 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:

	Governmental Activities
Cash and investments -	
Landfill closure and postclosure costs	<u>\$ 2,462,146</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 \$2,166,347 reported as landfill closure and postclosure liability at June 30, 2017 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, 2017. 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, 2017, investments and deposits held in trust of \$2,462,146 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 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, 2017, 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	
	2017	2016	2017	2016
Unpaid claims -				
Beginning of year	\$ 391,268	\$ 1,564,719	\$ 1,013,200	\$ 1,407,782
Incurred claims (adjustments)	363,898	(743,493)	999,803	58,608
Claim payments	(57,492)	(429,958)	(403,831)	(453,190)
Unpaid claims -				
End of year	<u>\$ 697,674</u>	<u>\$ 391,268</u>	<u>\$ 1,609,172</u>	<u>\$ 1,013,200</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 estimated 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. 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 audited 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 15 percent of the System's assets 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 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, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.79%. 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 by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2016, 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.

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Retirees and beneficiaries	1,089
Inactive employees entitled to but not yet receiving benefits	201
Active plan members	<u>31</u>
Total membership	<u><u>1,321</u></u>

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Reserves. In accordance with state law, the City establishes reserves for various purposes. The balance of the reserve accounts at December 31, 2016 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 242,020,419
Employee reserve	553,879

Net Pension Asset. The City's net pension asset was measured as of December 31, 2016.

Actuarial Assumptions. The total pension asset was determined by an actuarial valuation as of December 31, 2016. The valuation used the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.25%
Salary increases	3.6 - 7.4%, average, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Health Annuitant Mortality Table (unadjusted) projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scale.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - Large Cap	20.00%	5.58%
Domestic equity - Mid Cap	15.00%	5.92%
Domestic equity - Small Cap	10.00%	5.92%
International Equity	5.00%	5.71%
Emerging markets equity	5.00%	6.80%
Fixed income - Core	25.00%	2.27%
Real estate	10.00%	4.44%
Private equity	10.00%	8.02%
	100.00%	

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Discount Rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the City's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rates. The discount rate changed from prior year by a 50 basis point reduction. 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, 2015	\$ 252,615,769	\$ 459,342,354	\$ (206,726,585)
Changes for the year:			
Service cost	324,671	-	324,671
Interest	17,944,933	-	17,944,933
Changes in benefit terms	-	-	-
Differences between expected and actual experience	5,189,027	-	5,189,027
Changes in assumptions	15,686,953	-	15,686,953
Benefit payments, including refunds of employee contributions	(27,119,534)	(27,119,534)	-
Net investment income (loss)	-	34,606,547	(34,606,547)
Administrative expense	-	(683,083)	683,083
Miscellaneous other charges/revenue	-	5,748	(5,748)
Net changes	12,026,050	6,809,678	5,216,372
Balances at December 31, 2016	\$ 264,641,819	\$ 466,152,032	\$ (201,510,213)

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 7.0%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
City's net pension asset	\$ (175,740,476)	\$ (201,510,213)	\$ (223,369,575)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is provided in Note 16.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2017, the City recognized pension expense of \$14,999,600. At June 30, 2017, 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	\$ -	\$ 1,727,468	\$ (1,727,468)
Net difference between projected and actual earnings on pension plan investments	25,072,791	-	25,072,791
Total	\$ 25,072,791	\$ 1,727,468	\$ 23,345,323

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
2018	\$ 8,584,974
2019	8,584,974
2020	7,331,602
2021	(509,947)
2022	(270,297)
Thereafter	<u>(375,983)</u>
Total	<u>\$ 23,345,323</u>

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Partial Termination and Plan Closure. In 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with the Oakland County sheriff for policing services. This resulted from the termination of active employee positions at the City under 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, for purposes of computing the actuarial determined contribution to the System from the City, the actuary is expressing the amount 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.

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, 2016, the annual money-weighted rate of return on pension plan investments was 9.86%. 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 benefit terms and the obligation to contribute to and maintain the retirement 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 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; however, given that the plan is now closed, there are no longer any active members of the Plan. For the year ended December 31, 2016, the City of Pontiac's required and actual contribution was \$2,041,923. There were no contributions due from members during fiscal year 2016.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	444
Inactive employees entitled to but not yet receiving benefits	<u>143</u>
 Total membership	 <u><u>587</u></u>

Reserves. As of December 31, 2016, the Plan's legally required reserves have been fully funded as follows:

The *retiree reserve* is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The *employee reserve* is credited as employees make contributions; the Plan maintains a record of the amount contributed by each employee.

The balances of the reserve accounts (required and actual reserves) at December 31, 2016 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 250,798,054	\$ 221,698,520
Employer reserve	1,358,777	1,358,777

Net Pension Liability. The City's net pension liability was measured as of December 31, 2016.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2016. 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 up to 25 years

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2016.

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, 2016 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	45.00%	7.32%
International equity	12.00%	8.29%
Domestic bonds	18.00%	2.44%
International bonds	5.00%	3.41%
Real estate	10.00%	4.39%
Other assets	10.00%	3.19%
	<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 and deferred 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, 2015	\$ 252,746,884	\$ 224,635,362	\$ 28,111,522
Changes for the year:			
Interest	18,142,691	-	18,142,691
Changes in benefit terms	780,417	-	780,417
Differences between expected and actual experience	2,964,382	-	2,964,382
Employer contributions	-	2,041,923	(2,041,923)
Changes of assumptions	(2,147,637)	-	(2,147,637)
Benefit payments, including refunds of employee contributions	(21,688,683)	(21,688,683)	-
Net investment income	-	18,343,180	(18,343,180)
Administrative expense	-	(300,220)	300,220
Other	-	25,735	(25,735)
Net changes	<u>(1,948,830)</u>	<u>(1,578,065)</u>	<u>(370,765)</u>
Balances at December 31, 2016	\$ 250,798,054	\$ 223,057,297	\$ 27,740,757

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	\$ 54,389,646	\$ 27,740,757	\$ 3,651,504

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is provided in Note 16.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2017, the City recognized pension expense of \$7,102,037. At June 30, 2017, 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	\$ 8,638,033	\$ -	\$ 8,638,033
Contributions subsequent to measurement date	1,773,629	-	1,773,629
Total	<u>\$ 10,411,662</u>	<u>\$ -</u>	<u>\$ 10,411,662</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, 2018. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2018	\$ 3,188,304
2019	3,188,304
2020	2,709,942
2021	<u>(448,517)</u>
Total	<u>\$ 8,638,033</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.

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 \$3,610,828. The current year contribution was calculated based on covered payroll of \$1,139,879, resulting in employer contributions of \$48,322 and employee contributions of \$81,192. As of June 30, 2017, 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, 2017, 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 2017. 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, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2017. 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	\$ -
Interest on net OPEB obligation	1,644,302
Adjustment to annual required contribution	<u>(1,856,335)</u>
Net OPEB cost (expense)	(212,033)
Contributions made	<u>(33,816)</u>
Change in net OPEB obligation	(245,849)
Net OPEB obligation, beginning of year	<u>21,924,031</u>
Net OPEB obligation, end of year	<u>\$ 21,678,182</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
2015	12/31/2013	\$ 2,240,622	4.98%	\$ 21,463,965
2016	1/1/2016	460,066	0.00%	21,924,031
2017	1/1/2017	(212,033)	-15.95%	21,678,182

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
1/1/17	\$ 39,309,233	\$ 37,477,414	\$ (1,831,819)	104.89%	\$ -	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, 2017 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, 2016. The UAAL is being amortized as a level dollar based on a closed group. The remaining amortization period at January 1, 2017 was 29 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, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 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 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	\$ 6,967,528
Interest on net OPEB obligation	2,206,581
Adjustment to annual required contribution	<u>(4,534,442)</u>
Net OPEB cost (expense)	4,639,667
Contributions made	<u>(1,279,312)</u>
Change in net OPEB obligation	3,360,355
Net OPEB obligation, beginning of year	<u>55,164,522</u>
Net OPEB obligation, end of year	<u>\$ 58,524,877</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
2015	12/31/2014	\$ 11,602,758	14.77%	\$ 44,605,881
2016	12/31/2014	11,869,723	11.05%	55,164,522
2017	12/31/2016	4,639,667	27.57%	58,524,877

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
12/31/16	\$ -	\$ 84,764,641	\$ 84,764,641	0.00%	n/a	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 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, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 9.0% annual increase for medical care inflation in the first year, decreasing in increments of 0.5% over the next 8 years to the ultimate 5.0% assumption for retirees pre-65 and a 7.0% annual increase in the first year, decreasing in increments of 0.5% over the next 8 years to the ultimate 4.0% assumption for retirees post-65. The assumed investment return rate was 4.0% percent. This rate assumes no prefunding. The UAAL is being amortized at level dollar on a closed basis. The remaining amortization period at December 31, 2016 was 17 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, 2016			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Assets				
Cash and cash equivalents	\$ 179	\$ 1,692,993	\$ 1,112,979	\$ 2,806,151
Investments at fair value:				
U.S. government obligations and agencies	-	-	924,440	924,440
Government agency notes and debentures	38,640,291	-	-	38,640,291
Mortgage-backed securities	-	-	1,168,850	1,168,850
Collateralized mortgage obligations	-	-	206,572	206,572
U.S. government securities	-	22,286,610	-	22,286,610
U.S. government mortgage-backed securities	14,427,481	7,252,030	-	21,679,511
Commercial mortgage pools	5,260,245	-	-	5,260,245
Asset-backed securities	4,996,713	-	564,925	5,561,638
Corporate and other bonds	25,436,065	9,580,396	1,802,270	36,818,731
State and local bonds	10,730,447	-	-	10,730,447
Foreign bonds and notes	-	-	120,162	120,162
Limited partnerships	54,380,569	27,827,238	8,513,857	90,721,664
Domestic stock	-	135,590,946	-	135,590,946
Short-term investments	16,118,772	2,361,524	619,122	19,099,418
Equities	-	-	23,133,160	23,133,160
Domestic equities	282,318,729	-	-	282,318,729
Private equities	13,503,583	-	-	13,503,583
Real estate	-	16,328,057	-	16,328,057
Real estate investment trusts	-	-	722,980	722,980
Private placement bonds	-	-	66,591	66,591
Accrued interest and dividends receivable	1,133,243	266,433	48,312	1,447,988
Due from broker	-	-	77,116	77,116
Other receivables	9,623	-	-	9,623
Prepaid expenses and other assets	-	-	4,867	4,867
Due from Police and Fire Retirement System VEBA	-	86,983	-	86,983
Total assets	466,955,940	223,273,210	39,086,203	729,315,353

continued...

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Plan Net Position as of December 31, 2016			
	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	-	-	86,698	86,698
Accounts payable and other	803,908	215,913	500,990	1,520,811
Total liabilities	803,908	215,913	660,466	1,680,287
Net position restricted for pension and other employee benefits	\$ 466,152,032	\$ 223,057,297	\$ 38,425,737	\$ 727,635,066

concluded.

	Changes in Plan Net Position for the Year Ended December 31, 2016			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Additions				
Investment income:				
Interest and dividend income	\$ 7,886,702	\$ 4,195,007	\$ 618,020	\$ 12,699,729
Net increase in fair value	29,311,087	15,048,614	3,422,055	47,781,756
Less investment related expenses	(2,591,242)	(900,441)	(132,471)	(3,624,154)
Net investment income	34,606,547	18,343,180	3,907,604	56,857,331
Contributions - Employer	-	2,041,923	-	2,041,923
Miscellaneous and litigation revenue	5,748	25,735	9,088	40,571
Total additions	34,612,295	20,410,838	3,916,692	58,939,825

continued...

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Changes in Plan Net Position for the Year Ended December 31, 2016			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Deductions (continued)				
Retirees' pension benefits	\$ 27,119,534	\$ 21,688,683	\$ -	\$ 48,808,217
Retiree health benefit payments	-	-	1,908,558	1,908,558
Administrative expenses	683,083	300,220	69,117	1,052,420
Total deductions	27,802,617	21,988,903	1,977,675	51,769,195
Change in net position	6,809,678	(1,578,065)	1,939,017	7,170,630
Net position:				
Beginning of year	459,342,354	224,635,362	36,486,720	720,464,436
End of year	\$ 466,152,032	\$ 223,057,297	\$ 38,425,737	\$ 727,635,066

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 a prior Emergency Manager order allowing the City to not make the annual contribution to the VEBA Trust for the period ending June 30, 2012. Additionally, the City has been in litigation with the Retired Employees Association relating to changes in healthcare coverage.

On April 4, 2017, the City announced that a tentative settlement had been reached regarding retiree healthcare. This settlement agreement must be approved by various parties, including the City Council, Federal District Court, and IRS, among others. If fully approved, the settlement agreement would provide healthcare funding for all Pontiac retirees via the creation of a new VEBA by utilizing certain overfunded assets from the City of Pontiac General Employees' Retirement System and this Trust. The City's contribution to the new VEBA per the tentative agreement ranges from \$3.5 million to \$4.2 million depending on the outcome of an actuary valuation.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

In addition, as part of this agreement, the Police and Fire VEBA Board of Trustees would have to dismiss its lawsuit against the City related to the fiscal year 2012 contribution not made in the amount of \$3,473,923.

Ottawa Towers vs. City of Pontiac. The City has also been in litigation since 2012 over its 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 Michigan Supreme Court ruled in favor of Ottawa Towers thereby stopping the demolition. Ottawa Towers has continued litigation against the City claiming damages in excess of \$10 million due to the inability to lease the building during the demolition case. Part of this lawsuit is covered through the City's insurance with MMRMA subject to the City's deductible of \$250,000, and part of it is not covered by the insurance. At this point there is no clear indication of the outcome nor is there an estimate available.

18. TAX ABATEMENTS

The City received reduced property tax revenues during the year as a result of industrial facilities tax exemptions (IFT's), brownfield redevelopment agreements and other agreements entered into by cities, villages, townships, and authorities within the City.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to \$120,187 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$16,241 in reduced City tax revenues for the year.

The City also has entered into agreements under the State Housing Development Authority Act, PA 346 of 1966. Under this act, a municipality may allow a payment of a service charge in lieu of taxes to provide housing to elderly persons of low to moderate income. The abatements amounted to \$469,957 in reduced City tax revenues for the year.

Finally, the City entered into agreements under the New Personal Property Tax Exemption Act, PA 328 of 1998, as amended. This act affords a 100% property tax exemption for specific businesses located within eligible distressed communities. The abatements amounted to \$1,556,916 in reduced City tax revenues for the year.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

19. 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
Nonspendable						
Prepaid items	\$ 15,290	\$ -	\$ 2	\$ 664	\$ 853	\$ 16,809
Restricted						
Roads	-	2,817,625	-	-	4,263,188	7,080,813
Drug enforcement	-	-	-	-	228,525	228,525
Capital projects	-	-	-	-	1,280,522	1,280,522
Sanitation	-	-	5,699,732	-	-	5,699,732
Drains	-	-	-	-	32,813	32,813
Senior activities	-	-	-	-	971,841	971,841
Community development	-	-	-	-	6,335	6,335
Home buyers assistance	-	-	-	-	3,638	3,638
Cable television	-	-	-	-	1,136,150	1,136,150
Telecommunications	-	-	-	-	33,460	33,460
Building inspection	-	-	-	-	259,612	259,612
Total restricted	-	2,817,625	5,699,732	-	8,216,084	16,733,441
Committed						
Cemetery	-	-	-	-	179,582	179,582
Assigned						
Capital projects	2,990,646	-	-	-	2,150,000	5,140,646
Unassigned	14,067,839	-	-	-	-	14,067,839
Total fund balances	\$17,073,775	\$ 2,817,625	\$ 5,699,734	\$ 664	\$10,546,519	\$36,138,317



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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,		
	2017	2016	2015
Change in total pension liability			
Service cost	\$ 324,671	\$ 314,272	\$ 279,187
Interest	17,944,933	19,232,034	19,973,828
Changes in benefit terms	-	5,407,365	-
Differences between expected and actual experience	5,189,027	(23,548,600)	(2,538,358)
Changes in assumptions	15,686,953	9,124,140	-
Benefit payments, including refunds of member contributions	(27,119,534)	(28,052,593)	(27,507,232)
Net change in total pension liability	<u>12,026,050</u>	<u>(17,523,382)</u>	<u>(9,792,575)</u>
Total pension liability, beginning	<u>252,615,769</u>	<u>270,139,151</u>	<u>279,931,726</u>
Total pension liability, ending (a)	<u>264,641,819</u>	<u>252,615,769</u>	<u>270,139,151</u>
Change in plan fiduciary net position			
Net investment income (loss)	34,606,547	(3,414,613)	29,460,854
Benefit payments, including refunds of member contributions	(27,119,534)	(28,052,593)	(27,507,232)
Administrative expense	(683,083)	(954,593)	(699,715)
Other	5,748	37,357	-
Net change in plan fiduciary net position	<u>6,809,678</u>	<u>(32,384,442)</u>	<u>1,253,907</u>
Plan fiduciary net position, beginning	<u>459,342,354</u>	<u>491,726,796</u>	<u>490,472,889</u>
Plan fiduciary net position, ending (b)	<u>466,152,032</u>	<u>459,342,354</u>	<u>491,726,796</u>
City's net pension asset, ending (a)-(b)	<u>\$ (201,510,213)</u>	<u>\$ (206,726,585)</u>	<u>\$ (221,587,645)</u>
Plan fiduciary net position as a percentage of the total pension liability	176.14%	181.83%	182.03%
Covered payroll	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
City's net pension asset as a percentage of covered payroll	13,081.07%	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 Payroll	Net Pension Asset as Percentage of 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%
2017	264,641,819	466,152,032	(201,510,213)	176.14%	1,540,472	13,081.07%

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 Payroll	Contributions as Percentage of Covered Payroll
2015	\$ -	\$ -	\$ -	\$ 1,478,241	0.0%
2016	-	-	-	1,528,731	0.0%
2017	-	-	-	1,540,472	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 and a half years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market-value
Inflation	2.25%
Salary increases	3.6 - 7.4% (includes inflation)
Investment rate of return	7.0%
Retirement age	Age-based table of rates are specific to the type of eligibility condition
Mortality rates	The RP-2014 Health Annuitant Mortality Table (unadjusted) projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scales
Other information	Post-retirement adjustment Hospital - No cost-of-living adjustment MAPE - 2.5% of original retirement income for 14 years, max 35% PMEA - 2.0% of original retirement income for 14 years, max 28% All others - 2.0% of original retirement income for 18 years, max 36%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information General Employees' Retirement System

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return ⁽¹⁾
2015	6.76%
2016	-0.84%
2017	7.79%

⁽¹⁾ 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,		
	2017	2016	2015
Change in total pension liability			
Interest	\$ 18,142,691	\$ 17,667,136	\$ 17,801,885
Changes in benefit terms	780,417	1,179,108	-
Differences between expected and actual experience	2,964,382	4,777,253	67,662
Changes in assumptions	(2,147,637)	3,437,195	-
Benefit payments, including refunds of member contributions	(21,688,683)	(19,751,254)	(19,581,140)
Net change in total pension liability	(1,948,830)	7,309,438	(1,711,593)
Total pension liability, beginning	252,746,884	245,437,446	247,149,039
Total pension liability, ending (a)	250,798,054	252,746,884	245,437,446
Change in plan fiduciary net position			
Contributions - employer	2,041,923	2,327,949	901,797
Net investment income	18,343,180	1,600,942	15,235,786
Benefit payments, including refunds of member contributions	(21,688,683)	(19,751,254)	(19,581,140)
Administrative expense	(300,220)	(328,225)	(332,389)
Other	25,735	1,020	40,671
Net change in plan fiduciary net position	(1,578,065)	(16,149,568)	(3,735,275)
Plan fiduciary net position, beginning	224,635,362	240,784,930	244,520,205
Plan fiduciary net position, ending (b)	223,057,297	224,635,362	240,784,930
City's net pension liability, ending (a)-(b)	\$ 27,740,757	\$ 28,111,522	\$ 4,652,516
Plan fiduciary net position as a percentage of the total pension liability	88.94%	88.88%	98.10%
Covered payroll	\$ -	\$ -	\$ -
City's net pension liability as a percentage of covered payroll	0.00%	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 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%
2017	250,798,054	223,057,297	27,740,757	88.94%	-	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 Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 901,797	\$ 901,797	\$ -	\$ -	0.0%
2016	2,327,949	2,327,949	-	-	0.0%
2017	2,041,923	2,041,923	-	-	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 and a half years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	26 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
Retirement age	Experience-based table of rates to the type of eligibility condition
Mortality rates	RP-2014 Blue Collar, with general improvements using MP-2016 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 ⁽¹⁾
2015	6.22%
2016	0.38%
2017	9.86%

⁽¹⁾ 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)
12/31/2013	\$ 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
1/1/2017	39,309,233	37,477,414	(1,831,819)	104.9%	-	n/a

Notes: Beginning with the December 31, 2010 valuation and until January 1, 2016, actuarial valuation information was derived from the actuary's 5 percent alternate return assumption. Beginning with the January 1, 2016 actuarial valuation, a 7.5 percent assumed rate of return was used.

Outstanding contributions related to 2010 and 2011 that were not remitted by the plan sponsor were removed from the asset value in the March 1, 2012 valuation.

Outstanding contributions related to 2010 - 2016 that were not remitted by the plan sponsor are not included in the asset value in any valuations since December 31, 2012.

Schedule of Employer Contributions		
Year Ended June 30	Annual Required Contribution (ARC) **	Amount Contributed *
2015	\$ 5,079,102	\$ -
2016	287,012	-
2017	-	-

* 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.

** Beginning with the contribution recommended for the fiscal year ended June 30, 2011 and until June 30, 2015, contributions based on a 5 percent investment rate of return have been reported. Beginning with the fiscal year ended June 30, 2016, contributions are based on a 7.5 percent investment rate of return.

Amortization method	Level dollar
Amortization period	29 years
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Medical inflation rate	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)
12/31/2012	\$ -	\$ 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%
12/31/2016	-	84,764,641	84,764,641	0.0%	n/a	n/a

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2015	12/31/2014	\$ 10,940,117	15.7%
2016	12/31/2014	10,940,117	12.0%
2017	12/31/2016	6,967,528	18.4%

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes and special assessments	\$ 7,461,993	\$ 7,461,993	\$ 8,309,157	\$ 847,164
Income taxes	11,200,000	11,200,000	13,140,072	1,940,072
Federal revenue	-	-	103,934	103,934
State revenue	9,415,000	9,415,000	10,075,245	660,245
Charges for services	1,055,280	1,055,280	1,017,944	(37,336)
Fines and forfeitures	164,000	164,000	8,000	(156,000)
Licenses and permits	240,000	240,000	198,301	(41,699)
Interest and rental revenue	192,641	192,641	262,495	69,854
Other revenue	1,249,120	1,249,120	1,459,723	210,603
Total revenues	30,978,034	30,978,034	34,574,871	3,596,837
Expenditures				
Current:				
General government	4,141,316	4,251,292	3,952,913	(298,379)
Public safety	19,251,713	19,251,713	19,065,874	(185,839)
Public works	1,923,307	2,078,007	1,796,517	(281,490)
Community and economic development	2,285,134	2,386,172	2,288,303	(97,869)
Recreation and culture	586,481	767,535	470,280	(297,255)
Retiree fringe benefits	1,773,627	1,773,627	1,773,627	-
Total expenditures	29,961,578	30,508,346	29,347,514	(1,160,832)
Revenues over expenditures	1,016,456	469,688	5,227,357	4,757,669
Other financing sources (uses)				
Transfers in	240,000	240,000	211,977	(28,023)
Transfers out	(2,812,902)	(2,812,902)	(2,483,496)	(329,406)
Total other financing sources (uses)	(2,572,902)	(2,572,902)	(2,271,519)	301,383
Net change in fund balance	(1,556,446)	(2,103,214)	2,955,838	5,059,052
Fund balance, beginning of year	14,117,937	14,117,937	14,117,937	-
Fund balance, end of year	\$ 12,561,491	\$ 12,014,723	\$ 17,073,775	\$ 5,059,052

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Major Streets Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 4,038,588	\$ 4,038,588	\$ 4,028,749	\$ (9,839)
Charges for services	-	-	5,471	5,471
Interest	1,000	1,000	18,540	17,540
Other revenue	-	-	455,792	455,792
Total revenues	4,039,588	4,039,588	4,508,552	468,964
Expenditures				
Public works	8,378,629	8,514,830	5,836,647	(2,678,183)
Revenue over (under) expenditures	(4,339,041)	(4,475,242)	(1,328,095)	3,147,147
Other financing sources (uses)				
Transfers in	750,000	750,000	-	(750,000)
Transfers out	(471,000)	(471,000)	(471,000)	-
Total other financing sources (uses)	279,000	279,000	(471,000)	(750,000)
Net change in fund balance	(4,060,041)	(4,196,242)	(1,799,095)	2,397,147
Fund balance, beginning of year	4,616,720	4,616,720	4,616,720	-
Fund balance, end of year	\$ 556,679	\$ 420,478	\$ 2,817,625	\$ 2,397,147

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Sanitation Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes and special assessments	\$ 1,545,345	\$ 1,545,345	\$ 1,624,939	\$ 79,594
Charges for services	2,305,000	2,305,000	2,308,924	3,924
Interest	1,050	1,050	11,481	10,431
Total revenues	3,851,395	3,851,395	3,945,344	93,949
Expenditures				
Public works	4,175,581	4,175,581	3,451,040	(724,541)
Net change in fund balance	(324,186)	(324,186)	494,304	818,490
Fund balance, beginning of year	5,205,430	5,205,430	5,205,430	-
Fund balance, end of year	\$ 4,881,244	\$ 4,881,244	\$ 5,699,734	\$ 818,490

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

District Court Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 182,896	\$ 182,896	\$ 182,896	\$ -
Charges for services	693,250	693,250	695,800	2,550
Fines and forfeitures	974,000	974,000	1,119,394	145,394
Interest	-	-	1,524	1,524
Total revenues	1,850,146	1,850,146	1,999,614	149,468
Expenditures				
District court	2,592,783	2,805,291	2,565,362	(239,929)
Revenue under expenditures	(742,637)	(955,145)	(565,748)	389,397
Other financing sources (uses)				
Transfers in	800,000	1,012,508	583,496	(429,012)
Transfers out	(50,000)	(50,000)	(21,977)	(28,023)
Total other financing sources (uses)	750,000	962,508	561,519	(400,989)
Net change in fund balance	7,363	7,363	(4,229)	(11,592)
Fund balance, beginning of year	4,893	4,893	4,893	-
Fund balance, end of year	\$ 12,256	\$ 12,256	\$ 664	\$ (11,592)

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, 2017 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, 2017

	Special Revenue Funds				
	Local Streets	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
Assets					
Cash and investments	\$ 4,242,366	\$ 1,000	\$ 37,888	\$ 6,335	\$ 3,638
Accounts receivable	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-
Interest receivable	-	-	-	-	-
Due from other governments	237,507	222,460	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 4,479,873	\$ 223,460	\$ 37,888	\$ 6,335	\$ 3,638
Liabilities					
Accounts payable	\$ 214,568	\$ -	\$ 5,075	\$ -	\$ -
Accrued wages	2,117	-	-	-	-
Due to other governments	-	-	-	-	-
Due to other funds	-	190,000	-	-	-
Deposits payable	-	-	-	-	-
Total liabilities	216,685	190,000	5,075	-	-
Deferred inflows of resources					
Unavailable revenue	-	-	-	-	-
Fund balances					
Nonspendable	-	-	-	-	-
Restricted	4,263,188	33,460	32,813	6,335	3,638
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Total fund balances	4,263,188	33,460	32,813	6,335	3,638
Total liabilities, deferred inflows of resources and fund balances	\$ 4,479,873	\$ 223,460	\$ 37,888	\$ 6,335	\$ 3,638

Special Revenue Funds					Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Cemetery Fund	Capital Improvement	Total
\$ 1,030,502	\$ 231,009	\$ 1,100,057	\$ 395,225	\$ 210,630	\$ 3,761,806	\$ 11,020,456
-	-	40,152	-	-	-	40,152
1,495	-	-	-	-	4,304	5,799
562	18	-	124	-	-	704
-	-	-	-	-	-	459,967
546	-	107	12	188	-	853
<u>\$ 1,033,105</u>	<u>\$ 231,027</u>	<u>\$ 1,140,316</u>	<u>\$ 395,361</u>	<u>\$ 210,818</u>	<u>\$ 3,766,110</u>	<u>\$ 11,527,931</u>
\$ 26,397	\$ 2,502	\$ 609	\$ 135,737	\$ 30,779	\$ 236,537	\$ 652,204
6,540	-	3,450	-	269	-	12,376
26,086	-	-	-	-	94,747	120,833
-	-	-	-	-	-	190,000
200	-	-	-	-	-	200
<u>59,223</u>	<u>2,502</u>	<u>4,059</u>	<u>135,737</u>	<u>31,048</u>	<u>331,284</u>	<u>975,613</u>
1,495	-	-	-	-	4,304	5,799
546	-	107	12	188	-	853
971,841	228,525	1,136,150	259,612	-	1,280,522	8,216,084
-	-	-	-	179,582	-	179,582
-	-	-	-	-	2,150,000	2,150,000
<u>972,387</u>	<u>228,525</u>	<u>1,136,257</u>	<u>259,624</u>	<u>179,770</u>	<u>3,430,522</u>	<u>10,546,519</u>
<u>\$ 1,033,105</u>	<u>\$ 231,027</u>	<u>\$ 1,140,316</u>	<u>\$ 395,361</u>	<u>\$ 210,818</u>	<u>\$ 3,766,110</u>	<u>\$ 11,527,931</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue Funds				
	Local Streets	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
Revenues					
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Federal revenue	-	-	-	1,363	-
State revenue	1,227,806	222,460	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Licenses and permits	-	500	-	-	-
Interest and rental revenue	11,606	-	144	-	-
Other revenue	-	-	-	-	-
Total revenues	1,239,412	222,960	144	1,363	-
Expenditures					
Current expenditures:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	1,520,528	-	66,671	-	-
Community and human services	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	1,520,528	-	66,671	-	-
Revenues over (under) expenditures	(281,116)	222,960	(66,527)	1,363	-
Other financing sources (uses)					
Transfers in	1,471,000	-	-	-	-
Transfers out	-	(190,000)	-	-	-
Total other financing sources (uses)	1,471,000	(190,000)	-	-	-
Net change in fund balances	1,189,884	32,960	(66,527)	1,363	-
Fund balances, beginning of year	3,073,304	500	99,340	4,972	3,638
Fund balances, end of year	\$ 4,263,188	\$ 33,460	\$ 32,813	\$ 6,335	\$ 3,638

Special Revenue Funds					Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Cemetery Fund	Capital Improvement	Total
\$ 296,842	\$ -	\$ -	\$ -	\$ -	\$ 860,342	\$ 1,157,184
-	-	-	-	-	-	1,363
-	-	-	-	-	42,500	1,492,766
-	-	-	60,097	-	-	60,097
-	30,990	-	-	-	-	30,990
-	-	-	1,632,702	-	-	1,633,202
21,899	434	2,181	698	-	9,576	46,538
-	-	163,449	-	-	-	163,449
<u>318,741</u>	<u>31,424</u>	<u>165,630</u>	<u>1,693,497</u>	<u>-</u>	<u>912,418</u>	<u>4,585,589</u>
-	-	126,276	-	70,230	-	196,506
-	47,475	-	1,766,739	-	-	1,814,214
-	-	-	-	-	-	1,587,199
306,585	-	-	-	-	-	306,585
-	-	-	-	-	801,027	801,027
<u>306,585</u>	<u>47,475</u>	<u>126,276</u>	<u>1,766,739</u>	<u>70,230</u>	<u>801,027</u>	<u>4,705,531</u>
<u>12,156</u>	<u>(16,051)</u>	<u>39,354</u>	<u>(73,242)</u>	<u>(70,230)</u>	<u>111,391</u>	<u>(119,942)</u>
-	-	-	-	250,000	650,000	2,371,000
-	-	-	-	-	-	(190,000)
-	-	-	-	250,000	650,000	2,181,000
<u>12,156</u>	<u>(16,051)</u>	<u>39,354</u>	<u>(73,242)</u>	<u>179,770</u>	<u>761,391</u>	<u>2,061,058</u>
<u>960,231</u>	<u>244,576</u>	<u>1,096,903</u>	<u>332,866</u>	<u>-</u>	<u>2,669,131</u>	<u>8,485,461</u>
<u>\$ 972,387</u>	<u>\$ 228,525</u>	<u>\$ 1,136,257</u>	<u>\$ 259,624</u>	<u>\$ 179,770</u>	<u>\$ 3,430,522</u>	<u>\$ 10,546,519</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2017

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Assets				
Current assets:				
Cash and investments	\$ 2,139,053	\$ 480,670	\$ 451,686	\$ 3,071,409
Accounts receivable	60,315	325,131	-	385,446
Due from other governments	-	26,235	-	26,235
Prepays	52,543	3,966,686	-	4,019,229
Total assets	2,251,911	4,798,722	451,686	7,502,319
Liabilities				
Current liabilities:				
Accounts payable	17,067	35,620	-	52,687
Accrued liabilities	1,609,172	697,674	-	2,306,846
Accrued wages	-	1,753	-	1,753
Current portion of compensated absences	-	-	120,848	120,848
Total current liabilities	1,626,239	735,047	120,848	2,482,134
Noncurrent liabilities - Compensated absences	-	-	330,838	330,838
Total liabilities	1,626,239	735,047	451,686	2,812,972
Net position				
Unrestricted	\$ 625,672	\$ 4,063,675	\$ -	\$ 4,689,347

CITY OF PONTIAC, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2017

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	\$ 633,932	\$ 5,056,313	\$ -	\$ 5,690,245
Operating expenses				
Insurance	-	4,879,748	-	4,879,748
Workers' compensation expense - net of change in liability	1,072,776	-	-	1,072,776
Miscellaneous expense	-	-	1,227	1,227
Total operating expenses	1,072,776	4,879,748	1,227	5,953,751
Operating income (loss)	(438,844)	176,565	(1,227)	(263,506)
Nonoperating revenue				
Interest income	7,097	718	1,227	9,042
Change in net position	(431,747)	177,283	-	(254,464)
Net position, beginning of year	1,057,419	3,886,392	-	4,943,811
Net position, end of year	\$ 625,672	\$ 4,063,675	\$ -	\$ 4,689,347

CITY OF PONTIAC, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2017

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities				
Cash received from interfund services	\$ 661,339	\$ 5,251,592	\$ (1,227)	\$ 5,911,704
Cash payments for goods and services	(513,090)	(5,277,791)	-	(5,790,881)
Cash payments to employees	-	(35,572)	17,767	(17,805)
Net cash provided (used) by operating activities	148,249	(61,771)	16,540	103,018
Cash flows from investing activities				
Interest income received	7,097	1,201	1,227	9,525
Net change in cash and investments	155,346	(60,570)	17,767	112,543
Cash and investments, beginning of year	1,983,707	541,240	433,919	2,958,866
Cash and investments, end of year	\$ 2,139,053	\$ 480,670	\$ 451,686	\$ 3,071,409
Reconciliation of operating income (loss) to net cash provided (used) in operating activities				
Operating income (loss)	\$ (438,844)	\$ 176,565	\$ (1,227)	\$ (263,506)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Change in:				
Accounts receivable	27,407	195,279	-	222,686
Due from other governments	-	66,384	-	66,384
Prepays	(20,120)	(829,283)	-	(849,403)
Accounts payable	(16,166)	22,683	-	6,517
Accrued liabilities	595,972	306,406	-	902,378
Accrued wages	-	195	-	195
Compensated absences	-	-	17,767	17,767
Net cash provided (used) by operating activities	\$ 148,249	\$ (61,771)	\$ 16,540	\$ 103,018

CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2017

	District Court- Agency	Current Tax Collection	Fire Insurance	Total
Assets				
Cash and cash equivalents	\$ 113,767	\$ -	\$ 348,737	\$ 462,504
Liabilities				
Accounts payable	\$ 425	\$ -	\$ -	\$ 425
Deposits payable	113,342	-	348,737	462,079
Total liabilities	\$ 113,767	\$ -	\$ 348,737	\$ 462,504

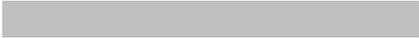
CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Component Units

June 30, 2017

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Assets				
Cash and investments	\$ 29,849	\$ 332,349	\$ -	\$ 362,198
Property taxes receivable - net	798	25,560	-	26,358
Total assets	\$ 30,647	\$ 357,909	\$ -	\$ 388,556
Liabilities				
Accounts payable	\$ 3	\$ 303	\$ -	\$ 306
Due to other governments	29,847	85,055	-	114,902
Financial guarantee	2,149,750	1,114,140	-	3,263,890
Total liabilities	2,179,600	1,199,498	-	3,379,098
Deferred inflows of resources				
Unavailable revenue	798	25,560	-	26,358
Fund balances				
Unassigned (deficit)	(2,149,751)	(867,149)	-	(3,016,900)
Total liabilities, deferred inflows of resources and fund balances	\$ 30,647	\$ 357,909	\$ -	\$ 388,556



Brownfield Redevelopment Authority	Total
\$ 289,624	\$ 651,822
-	26,358
<u>\$ 289,624</u>	<u>\$ 678,180</u>
\$ 28,858	\$ 29,164
3,622	118,524
-	3,263,890
<u>32,480</u>	<u>3,411,578</u>
-	26,358
<u>257,144</u>	<u>(2,759,756)</u>
<u>\$ 289,624</u>	<u>\$ 678,180</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, 2017

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances (deficits) for component units	\$ (2,149,751)	\$ (867,149)	\$ -	\$ (3,016,900)
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	798	25,560	-	26,358
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.				
	-	596,991	-	596,991
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	(16,053)	(156,441)	-	(172,494)
Bonds payable	(2,110,000)	(20,345,000)	-	(22,455,000)
Net position for component units	<u>\$ (4,275,006)</u>	<u>\$ (20,746,039)</u>	<u>\$ -</u>	<u>\$ (25,021,045)</u>



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

\$ 257,144 \$ (2,759,756)

- 26,358

- 596,991

- (172,494)

- (22,455,000)

\$ 257,144 \$ (24,763,901)

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Component Units

For the Year Ended June 30, 2017

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Revenues				
Taxes	\$ 46,763	\$ 1,271,540	\$ -	\$ 1,318,303
Contributions from primary government	488,806	497,104	-	985,910
Other revenue	38,000	-	-	38,000
Total revenues	<u>573,569</u>	<u>1,768,644</u>	<u>-</u>	<u>2,342,213</u>
Expenditures				
Commercial and industrial development	-	-	-	-
Financial guarantee	488,806	497,104	-	985,910
Debt service:				
Principal	460,000	800,000	-	1,260,000
Interest and fiscal charges	113,569	968,644	-	1,082,213
Total expenditures	<u>1,062,375</u>	<u>2,265,748</u>	<u>-</u>	<u>3,328,123</u>
Net change in fund balances	(488,806)	(497,104)	-	(985,910)
Fund balances (deficit), beginning of year	<u>(1,660,945)</u>	<u>(370,045)</u>	<u>-</u>	<u>(2,030,990)</u>
Fund balances (deficit), end of year	<u>\$ (2,149,751)</u>	<u>\$ (867,149)</u>	<u>\$ -</u>	<u>\$ (3,016,900)</u>



Brownfield Redevelopment Authority	Total
\$ 31,438	\$ 1,349,741
-	985,910
-	38,000
<hr/>	<hr/>
31,438	2,373,651
<hr/>	<hr/>
28,985	28,985
-	985,910
-	1,260,000
-	1,082,213
<hr/>	<hr/>
28,985	3,357,108
<hr/>	<hr/>
2,453	(983,457)
254,691	(1,776,299)
<hr/>	<hr/>
\$ 257,144	\$ (2,759,756)
<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, 2017

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	\$ (488,806)	\$ (497,104)	\$ -	\$ (985,910)
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.				
	(4)	17,577	(2,135)	15,438
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	460,000	800,000	-	1,260,000
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	2,875	9,666	-	12,541
Change in deferred loss on refunding	-	(42,642)	-	(42,642)
Change in net position of component units	<u>\$ (25,935)</u>	<u>\$ 287,497</u>	<u>\$ (2,135)</u>	<u>\$ 259,427</u>



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

\$ 2,453	\$ (983,457)
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-	15,438
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-	1,260,000
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-	12,541
---	--------

-	(42,642)
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<u>\$ 2,453</u>	<u>\$ 261,880</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 6, 2017

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, 2017, 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 6, 2017. 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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. 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.

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

CITY OF PONTIAC, MICHIGAN

■ Schedule of Findings and Responses For the Year Ended June 30, 2017

None noted.



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