

City of Pontiac,
Michigan



Year Ended
June 30, 2015

Financial
Statements

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CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 15, 2015

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac, Michigan* (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, which represents 99.8%, 100% and 100%, respectively, of the assets, net position, and additions of the fiduciary funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of June 30, 2015, 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.

Restatement of Beginning Net Position

As described in Note 19, the beginning net position of governmental activities has been increased and the beginning net position of the Tax Increment Finance Authority component unit has been decreased, to correct an error in recording certain capital assets. Our opinion is not modified with respect to this matter.

Implementation of GASB Statement No. 68

As described in Note 19, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities, the enterprise fund and business-type activities were restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedules for the general fund, major streets special revenue fund and sanitation special revenue fund, and the schedules 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 combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 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.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

As management of the City of Pontiac, we offer readers of the City of Pontiac's financial statements this narrative overview and analysis of the financial activities of the City of Pontiac for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here and contact City Administration at 248-758-3133 if you have any questions.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2015:

- The assets and deferred outflows of resources of the City of Pontiac exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$282,601,338 (net position). Of this amount, \$169,252,360 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Pontiac's total net position increased by 419.3% from a year ago from \$54,418,426 to \$282,601,338. This increase is primarily the result of recording a net pension asset, in accordance with GASB No. 68, on the government-wide statements.
- At the close of the current fiscal year, the City of Pontiac's governmental funds reported combined ending fund balances of \$24,244,492, an increase of \$7,693,579 in comparison with the prior year. Of this amount, \$9,881,533 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,881,533 or 35.9% of total general fund expenditures. The government hopes to maintain at least 15% unassigned fund balance.
- The City of Pontiac's total outstanding long-term debt decreased by \$1,189,972 during the current fiscal year as the City made its scheduled debt payments.

Overview of the Financial Statements

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

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

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

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

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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

The City of Pontiac maintains 14 individual governmental funds. Information is presented separately for each major fund (general, sanitation, and major street) and combined for the nonmajor funds in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. Individual fund data for the nonmajor funds is found in the supplementary information.

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

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

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

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

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information. This is limited to this management's discussion and analysis and the schedules for the pension and other postemployment benefit plans and budgetary information for the City's major funds.

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

Government-wide Overall Financial Analysis

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 258,003,029	\$ 31,708,092	\$ 4,748,128	\$ 2,565,007	\$ 262,751,157	\$ 34,273,099
Capital assets, net	90,435,588	80,878,657	11,683,115	12,209,692	102,118,703	93,088,349
Total assets	348,438,617	112,586,749	16,431,243	14,774,699	364,869,860	127,361,448
Deferred outflows of resources	9,204,748	-	50,135	-	9,254,883	-
Liabilities						
Current and other liabilities	78,565,304	8,759,361	529,065	40,504	79,094,369	8,799,865
Long-term liabilities	10,160,974	64,143,157	-	-	10,160,974	64,143,157
Total liabilities	88,726,278	72,902,518	529,065	40,504	89,255,343	72,943,022
Deferred inflows of resources	2,245,381	-	22,681	-	2,268,062	-
Net position:						
Investment in capital assets	90,435,588	80,878,657	11,683,115	12,209,692	102,118,703	93,088,349
Restricted	11,230,275	9,916,497	-	-	11,230,275	9,916,497
Unrestricted	165,005,843	(51,110,923)	4,246,517	2,524,503	169,252,360	(48,586,420)
Total net position	\$ 266,671,706	\$ 39,684,231	\$ 15,929,632	\$ 14,734,195	\$ 282,601,338	\$ 54,418,426

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Pontiac, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$282,601,338 at the close of the most recent fiscal year. Normally, the largest portion of the City of Pontiac's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure). Net position invested in capital assets, net of related outstanding debt that was used to acquire those assets, resulted in \$102,118,703. The City of Pontiac uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Pontiac's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Pontiac's net position, \$11,230,275, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$169,252,360 is unrestricted and could be used to meet the government's ongoing obligations to its citizens and creditors.

The City of Pontiac's overall net position increased \$228,182,912 from the prior fiscal year. The reasons for the overall increase 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 increased \$226,987,475 from the prior fiscal year for an ending balance of \$266,671,706. This increase is the result of the City recording the net pension asset.

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 \$909,975 from the prior fiscal year for an ending balance of \$15,929,632. This is the result of depreciation of capital assets and the recording of the OPEB liability.

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 6,799,613	\$ 7,799,259	\$ 92,890	\$ 124,302	\$ 6,892,503	\$ 7,923,561
Operating grants	7,586,835	7,690,210	-	8,841	7,586,835	7,699,051
General revenues:						
Property taxes	9,920,446	8,984,740	-	-	9,920,446	8,984,740
Income taxes	11,385,266	11,609,047	-	-	11,385,266	11,609,047
State shared revenues	9,365,569	9,151,547	-	-	9,365,569	9,151,547
Unrestricted investment earnings	36,795	20,325	7,961	-	44,756	20,325
Cable franchise fees	613,347	567,148	-	-	613,347	567,148
Gain on sale of assets	-	-	-	39,900	-	39,900
Total revenues	45,707,871	45,822,276	100,851	173,043	45,808,722	45,995,319

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CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Expenses:						
General government	\$ 1,989,354	\$ 11,669,284	\$ -	\$ -	\$ 1,989,354	\$ 11,669,284
Public safety	23,851,485	28,531,505	-	-	23,851,485	28,531,505
Public works	14,878,933	11,279,399	-	-	14,878,933	11,279,399
Community development	520,955	9,305,158	-	-	520,955	9,305,158
Community and human services	333,125	536,279	-	-	333,125	536,279
Recreation and culture	147,770	159,044	-	-	147,770	159,044
Parking	-	-	1,010,826	803,879	1,010,826	803,879
Golf course	-	-	-	1,709,385	-	1,709,385
Total expenses	41,721,622	61,480,669	1,010,826	2,513,264	42,732,448	63,993,933
Change in net position, before transfers	3,986,249	(15,658,393)	(909,975)	(2,340,221)	3,076,274	(17,998,614)
Transfers	-	349,666	-	(349,666)	-	-
Change in net position	3,986,249	(15,308,727)	(909,975)	(2,689,887)	3,076,274	(17,998,614)
Net position:						
Beginning of year, as restated	55,976,741	54,992,958	14,734,195	17,424,082	70,710,936	72,417,040
Restatement for implementation of GASB 68	206,708,716	-	2,105,412	-	208,814,128	-
End of year	\$ 266,671,706	\$ 39,684,231	\$ 15,929,632	\$ 14,734,195	\$ 282,601,338	\$ 54,418,426

concluded.

Financial Analysis of the City's Funds

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

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

At June 30, 2015, the City of Pontiac's governmental funds reported combined fund balances of \$24,244,492 an increase of \$7,693,579 in comparison with the prior year. Approximately 40.8% of this amount (\$9,881,533) 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 (\$924,545), 2) restricted for particular purposes (\$13,438,414), 3) committed for particular purposes (\$0), or 4) assigned for particular purposes (\$0).

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

The general fund is the chief operating fund of the City of Pontiac. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,881,533, while total fund balance increased to \$10,758,666. 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 35.9% of the total general fund expenditures, while total fund balance represents approximately 39.0% of that same amount.

The fund balance of the City of Pontiac's general fund increased by \$5,627,177 during the current fiscal year. The increase was due to the City spending less money than budgeted on contributions to the insurance and workers' compensation funds and received more revenue from income tax collections and less property tax chargebacks from previous years than anticipated.

The major street fund, a major fund, had a \$105,017 increase in fund balance during the current fiscal year which increased the overall fund balance to \$2,954,217.

The sanitation fund, a major fund, had a \$1,033,762 increase in fund balance during the current fiscal year which increased the overall fund balance to \$4,780,874. The increase in fund balance was caused by the City spending less than anticipated on workers' compensation and sanitation services as gas prices decreased from the prior year.

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

Unrestricted net position of the parking fund at the end of the fiscal year was \$4,246,517. The total decrease in net position for the proprietary funds was \$909,975. This was primarily caused by recording a \$498,887 other postemployment benefit liability, a \$22,680 GASB 68 deferred inflow and the depreciation of capital assets.

General Fund Budgetary Highlights

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

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 \$3,053,618. Total tax collections exceeded final budget estimates by \$3,526,635. Of that amount, \$1,638,964 was attributed to lower than anticipated property tax chargebacks and refunds, and \$1,695,271 was attributed to increased income tax collections. Licenses and permits generated \$768,253 less than anticipated due to a slower than projected response to the vacant property registration program.
- Total expenditures came in \$2,726,502 less than budgeted. Across the entire general fund, significant savings resulted from less than anticipated expenditures to Wade Trim (\$673,405), various professional services (\$478,335), workers' compensation (\$374,300), liability and property insurance (\$228,264), and legal services (\$204,404).

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. During the fiscal year, the City revalued all of its capital assets. The City of Pontiac's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$102,118,703 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, vehicles, and infrastructure. As a result of valuation, all streets are now included in the financial statements. Due to the lack of detail for previous year records, a good explanation for changes between previous year totals and current year totals, absent the adjustment, is not feasible.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 24,495,058	\$ 24,559,982	\$ 3,173,454	\$ 3,166,454	\$ 27,668,512	\$ 27,726,436
Construction in progress	38,456	384,025	-	-	38,456	384,025
Streets and bridges	62,711,857	68,631,468	-	-	62,711,857	68,631,468
Buildings and improvements	1,581,877	1,986,755	8,509,661	9,043,238	10,091,538	11,029,993
Machinery and equipment	367,551	420,555	-	-	367,551	420,555
Vehicles	204,975	263,540	-	-	204,975	263,540
Land improvements	199,354	215,331	-	-	199,354	215,331
Intangibles	836,460	709,509	-	-	836,460	709,509
Total	\$ 90,435,588	\$ 97,171,165	\$ 11,683,115	\$ 12,209,692	\$ 102,118,703	\$ 109,380,857

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

Long-term debt. At the end of the current fiscal year, the City of Pontiac had total indebtedness of \$10,160,974. All long-term debt is backed by the full faith and credit of the government.

The City of Pontiac's total indebtedness decreased by \$849,518 during the current fiscal year as the City's 2007 Financial Guarantee was reduced.

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

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation for the City of Pontiac is approximately \$77.2 million.

Economic Factors and Next Year's Budgets and Rates

- The City's largest source of revenue is local income tax. Income tax collections continue to outpace budget assumptions.
- City property tax collections are the third largest source of revenue for Pontiac. The City has projected in its budgets for both ensuing fiscal years that nearly all of the uncollected property taxes returned to the County Treasurer will be charged back to the City. The October land sale resulted in a chargeback significantly less than anticipated.
- Significant new construction projects in Pontiac are occurring in tax increment finance districts.
- Charges for general liability are proving to be less than anticipated as the City continues to settle outstanding lawsuits or prevail at levels less than anticipated. The number of lawsuits filed against the City has decreased significantly from four years ago. Only two open cases remain.

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

- Health insurance expenditures for family coverage of 50th District Court employees are estimated to cost the City about \$30,000 for family coverage by January 1, 2016. State law limits the City's exposure to about \$16,000, once the union contract expires on June 30, 2016.
- Because of low supply and low demand for single-family housing, sales prices are steadily increasing, as the market is making a steady correction.
- The City is significantly reducing the amount of excess housing units in the City through a strong demolition program of dangerous structures.

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

Effective September 1, 2013, the City of Pontiac received permission from the State Treasurer to temporarily modify collective bargaining agreements by eliminating the City's responsibility to provide and fund health insurance, life insurance, optical insurance, hearing insurance, and dental insurance benefits for its retirees for two years or the period of receivership, whichever is longer. A group of retirees sued the City and sought a temporary restraining order, which was denied by the federal District Court, but later remanded after a hearing by the full 6th Circuit Court of Appeals. As long as benefits are suspended, the City is expected to save about \$10 million per year and allows the City to operate under a structurally balanced budget. In addition, the City of Pontiac received permission from the State Treasurer to temporarily suspend contributions to the Police and Fire Retiree Prefunded Group Health and Insurance Trust during the period of receivership. This will save the City an additional \$4.5 million per year. This action is also subject of litigation.

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

The City of Pontiac plans to use \$772,927 of its unassigned fund balance in the general fund for the 2015-16 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, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and investments	\$ 23,271,728	\$ 2,337,711	\$ 25,609,439	\$ 646,921
Receivables, net	9,449,613	11,101	9,460,714	167,015
Other assets	3,393,084	183,440	3,576,524	-
Restricted assets	2,516,835	-	2,516,835	-
Capital assets not being depreciated	24,533,514	3,173,454	27,706,968	-
Capital assets being depreciated, net	65,902,074	8,509,661	74,411,735	-
Net pension asset	219,371,769	2,215,876	221,587,645	-
Total assets	348,438,617	16,431,243	364,869,860	813,936
Deferred outflows of resources				
Deferred loss on refunding	-	-	-	682,275
Deferred pension amounts	9,204,748	50,135	9,254,883	-
Total deferred outflows of resources	9,204,748	50,135	9,254,883	682,275
Liabilities				
Accounts payable and accrued liabilities	8,330,824	23,022	8,353,846	1,857,044
Unearned revenue	11,005	7,156	18,161	-
Long-term liabilities:				
Due within one year	907,874	-	907,874	1,294,088
Due in more than one year	9,253,100	-	9,253,100	23,715,000
Net pension liability	4,652,516	-	4,652,516	-
Net other postemployment benefit obligation	65,570,959	498,887	66,069,846	-
Total liabilities	88,726,278	529,065	89,255,343	26,866,132
Deferred inflows of resources				
Deferred pension amounts	2,245,381	22,681	2,268,062	-
Net position				
Investment in capital assets	90,435,588	11,683,115	102,118,703	-
Restricted for:				
Roads	5,220,054	-	5,220,054	-
Drug enforcement	266,189	-	266,189	-
Capital projects	666,704	-	666,704	-
Sanitation	2,518,592	-	2,518,592	-
Drains	399,276	-	399,276	-
Senior activities	1,009,353	-	1,009,353	-
Community development	4,972	-	4,972	-
District court	47,040	-	47,040	-
Cable television	1,098,095	-	1,098,095	-
Unrestricted (deficit)	165,005,843	4,246,517	169,252,360	(25,369,921)
Total net position	\$ 266,671,706	\$ 15,929,632	\$ 282,601,338	\$ (25,369,921)

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

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 1,989,354	\$ 1,473,106	\$ 2,302,649	\$ 1,786,401
Public safety	23,851,485	1,998,960	338,573	(21,513,952)
Public works	14,878,933	3,152,534	4,459,172	(7,267,227)
Community development	520,955	165,481	472,739	117,265
Community and human services	333,125	-	13,702	(319,423)
Recreation and culture	147,770	9,532	-	(138,238)
Total governmental activities	41,721,622	6,799,613	7,586,835	(27,335,174)
Business-type activities -				
Parking fund	1,010,826	92,890	-	(917,936)
Total primary government	\$ 42,732,448	\$ 6,892,503	\$ 7,586,835	\$ (28,253,110)
Component units				
Tax Increment Financing Authority	\$ 1,777,559	\$ -	\$ -	\$ (1,777,559)
Brownfield Redevelopment Authority	42,285	-	-	(42,285)
Total component units	\$ 1,819,844	\$ -	\$ -	\$ (1,819,844)

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (27,335,174)	\$ (917,936)	\$ (28,253,110)	\$ (1,819,844)
General revenues				
Property taxes	9,920,446	-	9,920,446	1,719,530
Income taxes	11,385,266	-	11,385,266	-
State-shared revenue (unrestricted)	9,365,569	-	9,365,569	-
Unrestricted investment earnings	36,795	7,961	44,756	-
Cable franchise fees	613,347	-	613,347	-
Other general revenues	-	-	-	138,150
Contributions from primary government	-	-	-	636,562
Total general revenues and transfers	31,321,423	7,961	31,329,384	2,494,242
Change in net position	3,986,249	(909,975)	3,076,274	674,398
Net position, beginning of year, as restated	262,685,457	16,839,607	279,525,064	(26,044,319)
Net position, end of year	\$ 266,671,706	\$ 15,929,632	\$ 282,601,338	\$ (25,369,921)

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, 2015

	General	Major Streets	Sanitation	Nonmajor Governmental Funds	Totals
Assets					
Cash and investments	\$ 7,905,865	\$ 2,937,410	\$ 2,068,850	\$ 6,447,530	\$ 19,359,655
Accounts receivable	372,468	-	499,367	40,804	912,639
Taxes receivable, net	5,017,129	-	283,995	164,664	5,465,788
Interest receivable	-	138	156	562	856
Due from other governments	1,568,875	580,721	-	378,829	2,528,425
Due from other funds	427,418	-	-	-	427,418
Prepays	877,133	-	15	47,397	924,545
Restricted assets	-	-	2,516,835	-	2,516,835
Total assets	\$ 16,168,888	\$ 3,518,269	\$ 5,369,218	\$ 7,079,786	\$ 32,136,161
Liabilities					
Accounts payable	\$ 999,363	\$ 563,914	\$ 240,181	\$ 598,836	\$ 2,402,294
Accrued wages	43,122	-	1,521	49,603	94,246
Due to other governments	1,651,081	-	325,011	237,233	2,213,325
Due to other funds	-	-	-	427,418	427,418
Deposits payable	575,958	-	-	9,368	585,326
Total liabilities	3,269,524	563,914	566,713	1,322,458	5,722,609
Deferred inflows of resources					
Unavailable revenue	2,140,698	138	21,631	6,593	2,169,060
Fund balances					
Nonspendable	877,133	-	15	47,397	924,545
Restricted	-	2,954,217	4,780,859	5,703,338	13,438,414
Unassigned	9,881,533	-	-	-	9,881,533
Total fund balances	10,758,666	2,954,217	4,780,874	5,750,735	24,244,492
Total liabilities, deferred inflows of resources and fund balances	\$ 16,168,888	\$ 3,518,269	\$ 5,369,218	\$ 7,079,786	\$ 32,136,161

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

CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	\$ 24,244,492
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	24,533,514
Capital assets being depreciated	329,257,491
Accumulated depreciation	(263,355,417)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	
	2,169,060
Certain pension-related amounts, such as the net pension 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	(4,652,516)
Net pension asset	219,371,769
Deferred outflows related to the net pension asset and liability	9,204,748
Deferred inflows related to the net pension asset and liability	(2,245,381)
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.	
	3,367,833
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(7,366,366)
Tax settlement agreements	(2,649)
Landfill closure and postclosure costs	(2,283,913)
Net other postemployment benefit obligation	(65,570,959)
Net position of governmental activities	<u>\$ 266,671,706</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, 2015

	General	Major Streets	Sanitation	Nonmajor Governmental Funds	Totals
Revenues					
Taxes and special assessments	\$ 19,352,111	\$ -	\$ 1,485,089	\$ 1,116,156	\$ 21,953,356
Licenses and permits	1,948,247	-	-	-	1,948,247
Federal revenue	-	-	-	89,822	89,822
State revenue	9,406,715	3,376,840	-	1,972,244	14,755,799
Charges for services	1,486,761	-	3,012,738	-	4,499,499
Fines and forfeitures	-	-	-	1,654,287	1,654,287
Interest	24,982	1,027	2,728	5,712	34,449
Other revenue	1,389,096	11,238	-	351,538	1,751,872
Total revenues	33,607,912	3,389,105	4,500,555	5,189,759	46,687,331
Expenditures					
Current:					
General government	3,134,485	-	-	139,477	3,273,962
District court	-	-	-	2,613,608	2,613,608
Public safety	19,752,760	-	-	54,696	19,807,456
Public works	1,302,932	2,812,988	3,466,793	1,430,216	9,012,929
Community and economic development	883,313	-	-	29,001	912,314
Community and human services	-	-	-	304,796	304,796
Recreation and culture	147,770	-	-	-	147,770
Other expenditures	2,340,302	-	-	-	2,340,302
Capital outlay	-	-	-	580,615	580,615
Total expenditures	27,561,562	2,812,988	3,466,793	5,152,409	38,993,752
Revenues over expenditures	6,046,350	576,117	1,033,762	37,350	7,693,579
Other financing sources (uses)					
Transfers in	203,801	-	-	1,094,074	1,297,875
Transfers out	(622,974)	(471,100)	-	(203,801)	(1,297,875)
Total other financing sources (uses)	(419,173)	(471,100)	-	890,273	-
Net changes in fund balances	5,627,177	105,017	1,033,762	927,623	7,693,579
Fund balances, beginning of year	5,131,489	2,849,200	3,747,112	4,823,112	16,550,913
Fund balances, end of year	\$ 10,758,666	\$ 2,954,217	\$ 4,780,874	\$ 5,750,735	\$ 24,244,492

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

CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances
to Changes in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net changes in fund balances - total governmental funds \$ 7,693,579

Amounts reported for *governmental activities* 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	220,205
Depreciation expense	(6,890,858)
Loss on disposal of capital assets	(64,924)

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.	(984,456)
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Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in net other postemployment benefit obligation	(11,519,660)
Change in net pension obligation	14,969,904
Change in the accrual for tax settlement agreement	2,649
Change in financial guarantee	391,359
Change in landfill closure and postclosure liability	(445,501)

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.

613,952

Change in net position of governmental activities

\$ 3,986,249

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

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CITY OF PONTIAC, MICHIGAN

Statement of Fund Net Position

Proprietary Funds
June 30, 2015

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments	\$ 2,337,711	\$ 3,912,073
Accounts receivable	11,101	523,028
Due from other governments	-	18,877
Prepays	183,440	2,468,539
Total current assets	2,532,252	6,922,517
Noncurrent assets:		
Capital assets not being depreciated	3,173,454	-
Capital assets being depreciated, net	8,509,661	-
Net pension asset	2,215,876	-
Total noncurrent assets	13,898,991	-
Total assets	16,431,243	6,922,517
Deferred outflows of resources		
Deferred pension amounts	50,135	-
Liabilities		
Current liabilities:		
Accounts payable	19,407	62,086
Accrued liabilities	-	2,972,501
Accrued wages	-	1,046
Due to other governments	3,615	-
Unearned revenue	7,156	11,005
Current portion of compensated absences	-	117,409
Total current liabilities	30,178	3,164,047
Noncurrent liabilities:		
Net other postemployment benefit obligation	498,887	-
Compensated absences	-	390,637
Total noncurrent liabilities	498,887	390,637
Total liabilities	529,065	3,554,684
Deferred inflows of resources		
Deferred pension amounts	22,681	-
Net position		
Investment in capital assets	11,683,115	-
Unrestricted	4,246,517	3,367,833
Total net position	\$ 15,929,632	\$ 3,367,833

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

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ 92,890	\$ 4,647,241
Operating expenses		
Insurance	-	4,052,631
Operating and maintenance costs	477,249	-
Sick and vacation payouts	-	36,552
Workers' compensation expense	-	(53,548)
Depreciation	533,577	-
Total operating expenses	1,010,826	4,035,635
Operating income (loss)	(917,936)	611,606
Nonoperating revenues		
Interest income	7,961	2,346
Change in net position	(909,975)	613,952
Net position, beginning of year, as restated	16,839,607	2,753,881
Net position, end of year	\$ 15,929,632	\$ 3,367,833

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

CITY OF PONTIAC, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 85,734	\$ 4,965,021
Cash payments to suppliers	(126,606)	(5,643,733)
Cash payments to employees	-	(53,164)
Net cash used for operating activities	<u>(40,872)</u>	<u>(731,876)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(49,000)	-
Proceeds from sale of capital assets	42,000	-
Net cash used for capital and related financing activities	<u>(7,000)</u>	<u>-</u>
Cash flows from investing activities		
Interest income	7,961	2,346
Net change in cash and investments	(39,911)	(729,530)
Cash and investments, beginning of year	2,377,622	4,641,603
Cash and investments, end of year	<u>\$ 2,337,711</u>	<u>\$ 3,912,073</u>
Reconciliation of operating income (loss) to net cash used for operating activities		
Operating income (loss)	\$ (917,936)	\$ 611,606
Adjustments to reconcile operating income (loss) to net cash used for operating activities		
Depreciation expense	533,577	-
Change in:		
Accounts receivable	(7,156)	317,780
Due to other governments	-	(18,877)
Prepays	-	(1,064,793)
Net pension asset and deferred amounts	(137,918)	-
Accounts payable	(9,652)	31,040
Accrued liabilities	-	(637,499)
Accrued wages	-	239
Unearned revenue	7,156	11,005
Due to other governments	(7,830)	-
Net other postemployment benefit obligation	498,887	-
Compensated absences	-	17,623
Net cash used for operating activities	<u>\$ (40,872)</u>	<u>\$ (731,876)</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, 2014	June 30, 2015
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 2,503,797	\$ 1,532,224
Investments at fair value:		
Money market funds	5,858,144	-
U.S. government obligations and agencies	23,859,161	-
Government agency notes and debentures	31,846,929	-
Mortgage-backed securities	2,353,548	-
Collateralized mortgage obligations	476,836	-
U.S government mortgage-backed securities	27,986,335	-
Commercial mortgage pools	6,435,995	-
Asset-backed securities	8,622,426	-
Corporate and other bonds	25,343,282	-
High-yield bonds	18,586,437	-
Foreign bonds and notes	6,866,648	-
Limited partnerships	61,939,002	-
Domestic stock	55,178,259	-
Foreign stock	95,929,310	-
Short-term investments	25,944,749	-
Foreign equity mutual fund	5,732,410	-
Equities	19,154,719	-
Domestic equities	274,924,384	-
Private equities	18,600,632	-
Foreign equities	38,133,443	-
Real estate	13,517,641	-
Real estate investment trusts	428,633	-
Private placement bonds	199,593	-
Accrued interest and dividends receivable	1,946,247	-
Due from broker	2,887	-
Other receivables	712,646	-
Due from Police and Fire Retirement System VEBA	88,613	-
Total assets	<u>773,172,706</u>	<u>\$ 1,532,224</u>

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position Fiduciary Funds

	December 31, 2014	June 30, 2015
	Pension and Other Postemployment Trust Funds	Agency Funds
Liabilities		
Due to City of Pontiac	\$ 81,320	\$ -
Due to Police and Fire Retirement System	86,698	-
Accounts payable and other	1,149,876	-
Accounts payable	-	205
Accrued liabilities	-	235,153
Due to other governments	-	1,173,360
Deposits payable	-	123,506
Total liabilities	<u>1,317,894</u>	<u>\$ 1,532,224</u>
Net position held in trust for		
Pension benefits	732,511,726	
Other postemployment benefits	<u>39,343,086</u>	
Total net position	<u>\$ 771,854,812</u>	

concluded.

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

CITY OF PONTIAC, MICHIGAN

Statement of Changes in Fiduciary Net Position

Pension and Other Postemployment Benefit Trust Funds
For the Year Ended December 31, 2014

	Pension and Other Postemployment Trust Funds
Additions	
Investment income:	
Interest and dividend income	\$ 15,643,757
Net increase in fair value	35,505,267
Less investment advisor fees	<u>(3,883,518)</u>
Net investment income	<u>47,265,506</u>
Contributions:	
Employer	901,797
Employees	<u>558,823</u>
Total contributions	<u>1,460,620</u>
Miscellaneous and litigation revenue	<u>61,963</u>
Total additions	<u>48,788,089</u>
Deductions	
Retirees' pension benefits	47,075,590
Retiree health benefit payments	2,122,813
Administrative expenses	<u>1,187,389</u>
Total deductions	<u>50,385,792</u>
Change in net position	(1,597,703)
Net position, beginning of year	<u>773,452,515</u>
Net position, end of year	<u><u>\$ 771,854,812</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, 2015

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	\$ 421,437	\$ 225,484	\$ 646,921
Receivables, net	167,015	-	167,015
Total assets	588,452	225,484	813,936
Deferred outflows of resources			
Deferred loss on refunding	682,275	-	682,275
Liabilities			
Accounts payable and accrued liabilities	1,853,500	3,544	1,857,044
Long-term liabilities:			
Due within one year	1,294,088	-	1,294,088
Due in more than one year	23,715,000	-	23,715,000
Total liabilities	26,862,588	3,544	26,866,132
Net position			
Unrestricted (deficit)	\$ (25,591,861)	\$ 221,940	\$ (25,369,921)

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, 2015

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Commercial and industrial development	\$ -	\$ 42,285	\$ 42,285
Financial guarantee	574,569	-	574,569
Interest on long-term debt	1,202,990	-	1,202,990
Total expenses	1,777,559	42,285	1,819,844
General revenues			
Property taxes	1,682,168	37,362	1,719,530
Other general revenues	138,150	-	138,150
Contributions from primary government	636,562	-	636,562
Total general revenues	2,456,880	37,362	2,494,242
Change in net position	679,321	(4,923)	674,398
Net position, beginning of year, as restated	(26,271,182)	226,863	(26,044,319)
Net position, end of year	\$ (25,591,861)	\$ 221,940	\$ (25,369,921)

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

NOTES TO FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Pontiac, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

Reporting Entity

The City of Pontiac, Michigan was incorporated on March 15, 1861 and operated under a council-strong mayor form of government until March 19, 2009 when an Emergency Financial Manager was appointed. A preliminary review of the City's financial condition was performed by the State of Michigan on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and ultimately appointed an Emergency Financial Manager (EFM) to run the City on March 19, 2009. This EFM served until June 30, 2010. A second EFM was appointed and served from July 4, 2010 to September 8, 2011. A third EM was appointed on September 12, 2011. On August 19, 2013, the Emergency Manager appointed a City Administrator to manage the day-to-day operations of the City (Order S-332), issued a final order (Order S-334), and submitted his resignation to the governor who appointed a Transition Advisory Board in accordance with Public Act 436 of 2012 to monitor the operations of the City. The City only directly manages and staffs treasury, city clerk, human resources, finance, executive offices, and purchasing operations as all other major functions and responsibilities of the City have been subcontracted with other government agencies or private service providers. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

The Tax Increment Financing Authority (TIFA) was created to promote economic growth and business development within the community. The TIFA's governing body consists of not less than 7 or more than 13 persons appointed by the mayor, subject to the approval of the City Council. A member shall hold office until the member's successor is appointed. An appointment to fill a vacancy shall be made by the mayor for the unexpired term only. Internally prepared financial statements for the TIFA can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.

The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City of Pontiac and to promote economic growth for these properties through the use of 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: 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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

All funds are shown for the year ended June 30, 2015, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2014.

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

CITY OF PONTIAC, MICHIGAN

Notes to 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 2014 tax is levied and collectible on July 1, 2014 and is recognized as revenue in the year ended June 30, 2015, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2014 taxable valuation of the City of Pontiac totaled approximately \$664 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 \$6.80 million for operating, \$1.70 million for refuse collection and disposal, \$0.85 million for capital improvement and \$0.30 million for senior activities. These amounts are recognized in the respective general fund, special revenue fund, and capital projects fund financial statements as tax revenue.

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

Deposits and Investments

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

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 estimated fair market value at the date of donation.

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

	Years
Streets and bridges	20-50
Land improvements	10-45
Building and improvements	5-50
Machinery and equipment	5-20
Vehicles	6
Furniture and fixtures	5-10
Water and sewer systems	25-100
Street and traffic signs	10

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

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. Unassigned fund balance is the residual classification for the general fund.

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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.

3. FUND DEFICITS

The City has an accumulated unassigned fund deficit in the following individual fund -

Component unit -

Tax Increment Finance Authority - District 2	\$ 1,143,489
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Tax Increment Finance Authority - Districts 2 - The deficit in the TIFA Fund is due to the General Fund paying TIFA 2007C bond debt service due in fiscal year ending June 30, 2015 on behalf of the TIFA Funds. The General Fund was obligated to pay the debt service under a financial guarantee agreement on the bonds. The TIFA Funds are required to reimburse the General Fund with future revenue and are required to report this obligation under GASB 70 until payment is made or the liability is legally released. The TIFA Funds do not have a current available resource to reimburse the General Fund which resulted in the deficit. The TIFA Funds will continue to have this deficit until a future revenue source becomes available. The City does not anticipate an available revenue source in the near future.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposits and investment balances for the primary government and the component units of as June 30, 2015:

	Primary Government	Component Units	Total
Statement of net position			
Cash and investments	\$ 25,609,439	\$ 646,921	\$ 26,256,360
Restricted cash and investments	1,405,645	-	1,405,645
Statement of fiduciary net position			
Cash and cash equivalents	4,036,021	-	4,036,021
Investments	767,918,516	-	767,918,516
Total	<u>\$ 798,969,621</u>	<u>\$ 646,921</u>	<u>\$ 799,616,542</u>
Bank deposits (demand accounts and certificates of deposit)			\$ 22,158,388
Investments in securities, mutual funds and similar vehicles:			
Oakland County Local Government Investment Pool (LGIP)			7,032,143
General Employees' Retirement System			490,491,350
Police and Fire Retirement System			240,474,310
Police and Fire Retirement System VEBA			39,456,653
Cash on hand			<u>3,698</u>
			<u>\$ 799,616,542</u>

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

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

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The Police and Fire Retirement System (PFRS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 347 of 2012. The PFRS's deposits and investment policies are in accordance with statutory authority.

The General Employees' Retirement System (GERS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 347 of 2012. The GERS's deposits and investment policies are in accordance with statutory authority.

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

The City, pension funds, and other employee benefit trust funds' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the Police and Fire Retirement System, General Employees' Retirement System and Police and Fire Retirement System VEBA balances as of December 31, 2014 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 \$22,158,388 of bank deposits (certificates of deposit, checking, and savings accounts). \$22,188,399 of the City's bank balance of \$23,479,535 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Police and Fire Retirement System - The Retirement System does not have a deposit policy for custodial credit risk. At December 31, 2014, the Retirement System had \$1,633,165 in bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Retirement System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

General Employees' Retirement System - The GERS does not have a deposit policy for custodial credit risk. At year end, the GERS had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The GERS continues to evaluate each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

City - The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2015, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

City - The City's investment policy states that no more than 25 percent of the portfolio be invested beyond 12 month, and the weighted average maturity of the portfolio shall never exceed one year. At year end, the City did not have any investments subject to interest rate risk.

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

Investment	Fair Value	Weighted Average Maturity (years)
U.S. governmental investments:		
Government agencies	\$ 3,154,642	1.27
Government mortgage-backed securities	16,000,740	1.91
Government bonds	19,707,178	5.64
Corporate and other bonds	5,980,346	6.27

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

Investment	Fair Value	Weighted Average Maturity (years)
Asset-backed securities	\$ 7,767,336	1.6
Commercial mortgage pools	6,319,356	2.62
Corporate and high yield bonds	42,855,567	4.64
Government agency notes and debentures	31,562,485	17.47
U.S. governmental issued commercial mortgage-backed securities	284,444	1.65
U.S. governmental mortgage-backed securities	11,985,595	2.54
Nongovernment-backed CMOs	116,639	1.06
Short-term investment funds	25,237,699	Unavailable

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

Investment	Fair Value	Weighted Average Maturity (years)
Corporate:		
Asset-backed	\$ 855,090	4.64
Corporate bonds	1,694,980	5.6
Collateralized mortgage obligations	476,836	32.62
Private placement	199,593	4.5
Foreign bonds	265,474	6.41
U.S. government:		
Agency	408,901	3.52
Collateralized mortgage obligations	38,460	19.26
Mortgage-backed securities	2,353,548	24.38
Treasuries, notes and bonds	549,980	6.82

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

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

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

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 1,343,579	AA	S&P
Corporate bonds	3,757,306	A	S&P
Corporate bonds	879,461	BBB	S&P
Short-term investment funds	5,852,924	Not rated	n/a
Government agencies	2,299,633	AA	S&P
Government mortgage-backed securities	761,661	Not rated	n/a

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	\$ 2,803,051	Aaa	Moody's
Asset-backed securities	1,438,586	Aa	Moody's
Asset-backed securities	253,390	Baa	Moody's
Asset-backed securities	3,272,309	Unrated	n/a
Commercial mortgage-backed securities	5,268,362	Aaa	Moody's
Commercial mortgage-backed securities	865,209	Aa	Moody's
Commercial mortgage-backed securities	185,785	Baa	Moody's
Corporate bonds	1,539,362	Aa	Moody's
Corporate bonds	6,836,200	A	Moody's
Corporate bonds	15,893,561	Baa	Moody's
Corporate bonds	242,050	Ba	Moody's
Corporate bonds	8,035,071	B	Moody's
Corporate bonds	10,227,191	Caa	Moody's
Corporate bonds	82,132	Ca	Moody's
Governmental agency notes and debentures	26,922,809	Aaa	Moody's
Governmental agency notes and debentures	3,047,550	Aa	Moody's
Governmental agency notes and debentures	1,592,126	Unrated	n/a
Nongovernment-backed CMOs	10,377	A	Moody's
Nongovernment-backed CMOs	106,262	Unrated	n/a
Short-term investment funds	25,237,699	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 (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate:			
Asset-backed securities	\$ 189,689	AAA	S&P
Asset-backed securities	128,107	AA	S&P
Asset-backed securities	182,538	A	S&P
Asset-backed securities	354,756	Not rated	n/a
Corporate bonds	40,027	AA	S&P
Corporate bonds	450,606	A	S&P
Corporate bonds	1,204,347	BBB	S&P
Collateralized mortgage obligations	120,850	AAA	S&P
Collateralized mortgage obligations	200,781	AA	S&P
Collateralized mortgage obligations	94,934	A	S&P
Collateralized mortgage obligations	60,271	Not rated	n/a
Private placement	46,165	A	S&P
Private placement	87,716	BBB	S&P
Private placement	65,712	Not rated	n/a
Foreign bonds	265,474	BBB	S&P

continued...

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Investment	Fair Value	Rating	Rating Organization
U.S. government:			
Agency	\$ 408,901	AA	S&P
Collateralized mortgage obligations	38,460	Not rated	n/a
Mortgage-backed securities	2,353,548	Not rated	n/a
Treasuries, notes and bonds	549,980	Not rated	n/a

concluded.

Concentration of Credit Risk

City - The City's investment policy states that no more than 25 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. At year end, there were no individual investments with a fair value that represent 5% or more of the City's investments.

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

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

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

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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

General Employees' Retirement System - The pension system restricts the amount of investments in foreign currency-denominated investments to 15 percent of total pension system investments. At December 31, 2014, the only type of investments which were subject to foreign currency risk were equity investments. The total amount of equity investments which were subject to foreign currency risk at year end was \$17,384,351. At year end, the System had a total foreign currency translation loss of \$1,446,515 related to equity investments.

Security	Fair Value
Canadian Dollar	\$ 608,731
Hong Kong Dollar	1,878,172
Denmark Krone	2,899,049
European Euro	1,920,800
Japanese Yen	2,272,015
Mexican Peso	660,185
South African Rand	666,750
Swedish Krona	934,314
Swiss Franc	3,262,417
British Pound	2,281,917

5. RECEIVABLES

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

	Governmental Activities	Business-type Activities
Taxes	\$ 13,708,734	\$ -
Accounts	1,492,362	11,101
Intergovernmental	2,547,302	-
Interest receivable	856	-
Less allowance for doubtful accounts	(8,299,641)	-
Net receivables	\$ 9,449,613	\$ 11,101

At June 30, 2015, approximately \$2.1 million of the net receivables in governmental activities is not expected to be collected within one year.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance, as Restated	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 24,559,982	\$ -	\$ (64,924)	\$ -	\$ 24,495,058
Construction in progress	384,025	15,468	-	(361,037)	38,456
Total capital assets not being depreciated	24,944,007	15,468	(64,924)	(361,037)	24,533,514
Capital assets being depreciated:					
Streets and bridges	285,799,810	-	-	361,037	286,160,847
Buildings and improvements	40,635,700	-	-	-	40,635,700
Machinery and equipment	541,128	15,826	-	-	556,954
Vehicles	655,043	-	-	-	655,043
Land improvements	319,547	-	-	-	319,547
Intangibles	740,489	188,911	-	-	929,400
Total capital assets being depreciated	328,691,717	204,737	-	361,037	329,257,491
Less accumulated depreciation for:					
Streets and bridges	(217,168,342)	(6,280,648)	-	-	(223,448,990)
Buildings and improvements	(38,648,945)	(404,878)	-	-	(39,053,823)
Machinery and equipment	(120,573)	(68,830)	-	-	(189,403)
Vehicles	(391,503)	(58,565)	-	-	(450,068)
Land improvements	(104,216)	(15,977)	-	-	(120,193)
Intangibles	(30,980)	(61,960)	-	-	(92,940)
Total accumulated depreciation	(256,464,559)	(6,890,858)	-	-	(263,355,417)
Total capital assets being depreciated, net	72,227,158	(6,686,121)	-	361,037	65,902,074
Governmental activities capital assets, net	\$ 97,171,165	\$ (6,670,653)	\$ (64,924)	\$ -	\$ 90,435,588

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Parking fund				
Capital assets not being depreciated -				
Land	\$ 3,166,454	\$ 49,000	\$ (42,000)	\$ 3,173,454
Capital assets being depreciated:				
Buildings and improvements	33,573,313	-	-	33,573,313
Traffic signs	57,182	-	-	57,182
Total capital assets being depreciated	33,630,495	-	-	33,630,495
Less accumulated depreciation for:				
Buildings and improvements	(24,530,075)	(533,577)	-	(25,063,652)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(24,587,257)	(533,577)	-	(25,120,834)
Total capital assets being depreciated, net	9,043,238	(533,577)	-	8,509,661
Parking fund capital assets, net	\$ 12,209,692	\$ (484,577)	\$ (42,000)	\$ 11,683,115

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

Depreciation of governmental activities by function

General government	\$ 378,080
Public safety	94,442
Public works	6,374,208
Community and human services	44,128

Total depreciation expense - governmental activities \$ 6,890,858

Depreciation of business-type activities by function

Parking	<u><u>\$ 533,577</u></u>
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Construction Commitments - At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Governmental activities:		
Featherstone Bridge	\$ 12,191	\$ 137,864
Walton and Giddings Roads	-	57,000
	<u><u>\$ 12,191</u></u>	<u><u>\$ 194,864</u></u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2015, amounts due to/due from other funds were as follows:

	Due From Other Funds	Due To Other Funds
General fund	\$ 427,418	\$ -
Nonmajor governmental funds	-	427,418
	<u>\$ 427,418</u>	<u>\$ 427,418</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, 2015, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 203,801	\$ 622,974
Major streets	-	471,100
Nonmajor governmental funds	1,094,074	203,801
	<u>\$ 1,297,875</u>	<u>\$ 1,297,875</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	\$ 5,298	\$ -	\$ (2,649)	\$ 2,649	\$ 2,649
2007C TIFA Bond Financial Guarantee	7,757,725	435,425	(826,784)	7,366,366	787,816
Compensated absences	490,423	37,708	(20,085)	508,046	117,409
Landfill closure and postclosure costs	1,838,412	445,501	-	2,283,913	-
Total governmental activities	\$ 10,091,858	\$ 918,634	\$ (849,518)	\$ 10,160,974	\$ 907,874
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%	\$ 26,100,000	\$ -	\$ (1,175,000)	\$ 24,925,000	\$ 1,210,000
Other long-term obligations:					
2012 Crown Enterprise tax appeal settlement	118,352	-	(59,176)	59,176	59,176
RLJ II MTT property tax refund	49,824	-	(24,912)	24,912	24,912
Total component units	\$ 26,268,176	\$ -	\$ (1,259,088)	\$ 25,009,088	\$ 1,294,088

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

Year Ending June 30	Component Units	
	Principal	Interest
2016	\$ 1,210,000	\$ 1,126,074
2017	1,260,000	1,082,214
2018	1,305,000	1,034,962
2019	1,360,000	982,762
2020	1,410,000	928,362
2021-2025	8,550,000	3,498,036
2026-2030	8,185,000	1,484,076
2031	1,645,000	74,026
	<u>\$ 24,925,000</u>	<u>\$ 10,210,512</u>

Compensated absences and separation accruals in governmental activities of \$508,046 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 \$2,283,913 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.

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 2015, total TIFA debt service amounted to \$2,342,200 of which \$574,569 was paid by the City and \$1,767,631 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 \$1,349,570 at June 30, 2015.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

9. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	Governmental Activities
Cash and investments -	
Landfill closure and postclosure costs	\$ 1,405,645
Deposits held by State for landfill postclosure care	<u>1,111,190</u>
Total restricted assets	<u>\$ 2,516,835</u>

10. LANDFILL - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and postclosure care costs as an expense in the government-wide statements in each period based on the acres of the entire permitted site used as of each balance sheet date. The \$2,283,913 reported as landfill closure and postclosure liability at June 30, 2015 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, 2015. 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, 2015, investments and deposits held by State of \$2,516,835 are held for these purposes. These are reported as restricted assets on the balance sheet. The total fund balance in the sanitation special revenue fund has been restricted as well. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

11. RISK MANAGEMENT

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported.

For medical, dental and workers' compensation, the City was fully insured in 2014 and 2015. 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, 2015, 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	
	2015	2014	2015	2014
Unpaid claims -				
Beginning of year	\$ 1,850,000	\$ 2,200,000	\$ 1,750,000	\$ 1,925,000
Incurred claims	234,390	264,510	177,239	10,151
Claim payments	(519,671)	(614,510)	(519,457)	(185,151)
Unpaid claims -				
End of year	<u>\$ 1,564,719</u>	<u>\$ 1,850,000</u>	<u>\$ 1,407,782</u>	<u>\$ 1,750,000</u>
	Medical and Dental Claims			
	2015	2014		
Unpaid claims -				
Beginning of year	\$ 10,000	\$ 475,000		
Incurred claims	715	1,135,005		
Claim payments	(10,715)	(1,600,005)		
Unpaid claims -				
End of year	<u>\$ -</u>	<u>\$ 10,000</u>		

12. DEFINED BENEFIT PENSION PLAN - GENERAL EMPLOYEES' RETIREMENT SYSTEM

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

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

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

Rate of Return. For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Contributions. Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the board of trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2014, the active members were not required to contribute to the System. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not have to make a contribution to the System in the current year. Administrative costs are financed through investment earnings.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Employees Covered by Benefit Terms. At December 31, 2014, plan membership consisted of the following:

Retirees and beneficiaries	1,132
Inactive employees entitled to but not yet receiving benefits	261
Active plan members	<u>32</u>
Total membership	<u><u>1,425</u></u>

Reserves. In accordance with state law, the City establishes reserves for various purposes. The balance of the reserve accounts at December 31, 2014 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 248,903,028
Employee reserve	960,517

Net Pension Liability. The City's net pension liability was measured as of December 31, 2014.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2013, which used updated procedures to roll forward the estimated asset to December 31, 2014. The valuation used the following actuarial assumptions applied to all periods included in the measurement.

Inflation	4.50%
Salary increases	5.6 - 9.4%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - Large Cap	25.00%	5.34%
Domestic equity - Mid Cap	20.00%	6.08%
Domestic equity - Small Cap	10.00%	6.55%
International Equity	15.00%	5.84%
Fixed-income - Domestic Investment Grade	20.00%	1.82%
Fixed-income - High Yield	5.00%	4.14%
Private equity	5.00%	7.63%
Cash or cash equivalents	0.00%	0.00%
	100.00%	

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

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2013	\$ 279,931,726	\$ 490,472,889	\$ (210,541,163)
Changes for the year:			
Service cost	279,187	-	279,187
Interest	19,973,828	-	19,973,828
Differences between expected and actual experience	(2,538,358)	-	(2,538,358)
Net investment income	-	29,460,854	(29,460,854)
Benefit payments, including refunds of employee contributions	(27,507,232)	(27,507,232)	-
Administrative expense	-	(699,715)	699,715
Net changes	(9,792,575)	1,253,907	(11,046,482)
Balances at December 31, 2014	\$ 270,139,151	\$ 491,726,796	\$ (221,587,645)

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	\$ (197,165,009)	\$ (221,587,645)	\$ (242,482,235)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the City recognized a reduction of pension expense of \$13,791,905. At June 30, 2015, 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	\$ -	\$ 2,268,062	\$ (2,268,062)
Net difference between projected and actual earnings on pension plan investments	5,013,484	-	5,013,484
Total	\$ 5,013,484	\$ 2,268,062	\$ 2,745,422

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
2016	\$ 983,074
2017	983,074
2018	983,074
2019	983,074
2020	(270,297)
Thereafter	(916,577)
Total	\$ 2,745,422

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

13. DEFINED BENEFIT PENSION PLAN - POLICE AND FIRE RETIREMENT SYSTEM

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

Partial Termination and Plan Closure. In 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with the Oakland County sheriff for policing services. This resulted from the termination of active employee positions at the City under the executive orders issued by the Emergency Manager. As of March 1, 2012, the City contracted with Waterford Township to provide fire services and the plan no longer had any active employees. As a result, the actuary is expressing the annual required contribution as a level dollar amount amortized on a closed basis rather than as a level percent of payroll.

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

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 June 30, 2015, the time-weighted rate of return on pension plan investments was 6.22%. The time-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Contributions. Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with City ordinance, union contracts, and plan provision. For the year ended December 31, 2014, the City of Pontiac's required and actual contribution was \$901,797. There were no contributions due from members during fiscal year 2014.

Employees Covered by Benefit Terms. At December 31, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	443
Inactive employees entitled to but not yet receiving benefits	<u>158</u>
Total membership	<u><u>601</u></u>

Reserves. As of December 31, 2014, the Plan's legally required reserves have been fully funded. The balance of the reserve accounts at December 31, 2014 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 223,902,637
Employer reserve	1,795,844

Net Pension Liability. The City's net pension liability was measured as of December 31, 2014.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2013, which used update procedures to roll forward the estimated liability to December 31, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement (there are no assumptions related to inflation and salary increases as there was a partial termination and plan closure in 2011):

Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Cost of living adjustments	2.0%, per year of retirement up to a maximum of 50%

Mortality rates were based on the 1994 Group Annuity Mortality Table set back one year for males and females.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	46.00%	7.50%
International equity	15.00%	8.50%
Domestic bonds	25.00%	2.50%
International bonds	5.00%	3.50%
Real estate	9.00%	4.50%
	<u>100.00%</u>	

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

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	\$ 247,149,039	\$ 244,520,205	\$ 2,628,834
Changes for the year:			
Interest	17,801,885	-	17,801,885
Differences between expected and actual experience	67,662	-	67,662
Employer contributions	-	901,797	(901,797)
Net investment income	-	15,235,786	(15,235,786)
Benefit payments, including refunds of employee contributions	(19,581,140)	(19,581,140)	-
Administrative expense	-	(332,389)	332,389
Other	-	40,671	(40,671)
Net changes	<u>(1,711,593)</u>	<u>(3,735,275)</u>	<u>2,023,682</u>
Balances at December 31, 2014	<u>\$ 245,437,446</u>	<u>\$ 240,784,930</u>	<u>\$ 4,652,516</u>

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

	1% Decrease (6.5%)	Current Discount Rate (7.35%)	1% Increase (8.5%)
City's net pension liability (asset)	\$ 30,445,236	\$ 4,652,516	\$ (16,983,282)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the City recognized pension expense of \$1,012,031. At June 30, 2015, 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	\$ 1,913,450	\$ -	\$ 1,913,450
Contributions subsequent to measurement date	2,327,949	-	2,327,949
Total	\$ 4,241,399	\$ -	\$ 4,241,399

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, 2016. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2016	\$ 478,363
2017	478,363
2018	478,363
2019	478,361
Total	\$ 1,913,450

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

14. DEFINED CONTRIBUTION PENSION PLAN

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

The City's total payroll during the current year was \$3,041,323. The current year contribution was calculated based on covered payroll of \$100,075, resulting in an employer contribution of \$9,000 and employee contributions of \$3,000. As of June 30, 2015, there was only one plan participant.

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

15. OTHER POSTEMPLOYMENT BENEFITS - POLICE AND FIRE RETIREMENT SYSTEM VEBA

Plan Description. The Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, and who retired on or after August 22, 1996. The Trust was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The Trust issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the Trust at 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, 2015, the City did not make any contributions into the Trust, which is reported in the City's financial statements as a pension and other postemployment benefit trust fund. During the fiscal year ended June 30, 2015, the City withdrew approximately \$2.1 million from the trust to cover current year health benefits.

During 2011, the Trust filed a lawsuit against the plan sponsor to compel payment on past due contributions. In March 2013, a settlement agreement was reached between the Trust and the plan sponsor and the City remitted a payment for past due contributions in the amount of \$3,243,232. Contributions for 2012 are currently the subject of a separate lawsuit. No contributions were made for 2013 through 2015. As these years' contributions may not be forthcoming, the contributions have not been reflected in the Trust's financial statements.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Funding Progress. For the year ended June 30, 2015, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2013. 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	\$ 1,863,176
Interest on net OPEB obligation	966,741
Adjustment to annual required contribution	<u>(589,295)</u>
Net OPEB cost (expense)	2,240,622
Contributions made	<u>(111,483)</u>
Change in net OPEB obligation	2,129,139
Net OPEB obligation, beginning of year	<u>19,334,826</u>
Net OPEB obligation, end of year	<u><u>\$ 21,463,965</u></u>

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

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	3/31/2012	\$ 4,694,054	125.74%	\$ 12,515,508
2014	12/31/2012	5,680,604	28.01%	19,334,826
2015	12/31/2013	2,240,622	4.98%	21,463,965

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
12/31/13	\$ 36,229,622	\$ 61,628,696	\$ 25,399,074	58.79%	\$ -	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.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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 December 31, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return as well as an alternate 5 percent investment rate of return compounded annually (net of administrative expenses). The financial statements reflect the use of the alternate 5 percent investment rate of return. The valuation also included a 5.6 percent medical care inflation rate assumption related to healthcare cost increases. The actuarial value of assets is set to equal the smoothed market value as of December 31, 2013. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

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

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

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

Plan Description. The City provides medical, prescription, and core dental benefits for General retirees and Police and Fire retirees not eligible for the Police and Fire Retiree Prefunded Group Health and Insurance Trust noted above. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements.

Funding Policy. The collective bargaining agreements do not require employee contributions. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Funding Progress. For the year ended June 30, 2015, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize an unfunded actuarial accrued liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 10,940,117
Interest on net OPEB obligation	1,388,659
Adjustment to annual required contribution	<u>(726,018)</u>
Net OPEB cost (expense)	11,602,758
Contributions made	<u>(1,713,350)</u>
Change in net OPEB obligation	9,889,408
Net OPEB obligation, beginning of year	<u>34,716,473</u>
Net OPEB obligation, end of year	<u><u>\$ 44,605,881</u></u>

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

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
* 2013	3/31/2012	\$ 10,778,592	16.47%	\$ 28,119,893
2014	12/31/2012	10,923,035	39.61%	34,716,473
2015	12/31/2014	11,602,758	14.77%	44,605,881

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/14	\$ -	\$ 181,240,639	\$ 181,240,639	0.00%	\$ 1,125,878	16,097.7%

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

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

	Plan Net Position as of December 31, 2014			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Assets				
Cash and cash equivalents	\$ 183	\$ 1,888,575	\$ 615,039	\$ 2,503,797
Investments at fair value:				
Money market funds	-	5,858,144	-	5,858,144
U.S. government obligations and agencies	-	22,861,820	997,341	23,859,161
Government agency notes and debentures	31,846,929	-	-	31,846,929
Mortgage-backed securities	-	-	2,353,548	2,353,548
Collateralized mortgage obligations	-	-	476,836	476,836
U.S government mortgage-backed securities	11,985,595	16,000,740	-	27,986,335
Commercial mortgage pools	6,435,995	-	-	6,435,995
Asset-backed securities	7,767,336	-	855,090	8,622,426
Corporate and other bonds	17,667,956	5,980,346	1,694,980	25,343,282
High-yield bonds	18,586,437	-	-	18,586,437

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CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Plan Net Position as of December 31, 2014			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Assets (continued)				
Foreign bonds and notes	\$ 6,601,174	\$ -	\$ 265,474	\$ 6,866,648
Limited partnerships	38,679,527	23,259,475	-	61,939,002
Domestic stock	-	55,178,259	-	55,178,259
Foreign stock	-	95,929,310	-	95,929,310
Short-term investments	25,237,699	-	707,050	25,944,749
Foreign equity mutual fund	-	-	5,732,410	5,732,410
Equities	-	-	19,154,719	19,154,719
Domestic equities	274,924,384	-	-	274,924,384
Private equities	12,624,692	-	5,975,940	18,600,632
Foreign equities	38,133,443	-	-	38,133,443
Real estate	-	13,517,641	-	13,517,641
Real estate investment trusts	-	-	428,633	428,633
Private placement bonds	-	-	199,593	199,593
Accrued interest and dividends receivable	1,441,509	453,174	51,564	1,946,247
Due from broker	-	-	2,887	2,887
Other receivables	712,646	-	-	712,646
Due from Police and Fire Retirement System VEBA	-	88,613	-	88,613
Total assets	492,645,505	241,016,097	39,511,104	773,172,706
Liabilities				
Due to City of Pontiac	-	-	81,320	81,320
Due to Police and Fire Retirement System	-	-	86,698	86,698
Accounts payable and other	918,709	231,167	-	1,149,876
Total liabilities	918,709	231,167	168,018	1,317,894
Net position held in trust for pension and other employee benefits	\$ 491,726,796	\$ 240,784,930	\$ 39,343,086	\$ 771,854,812

concluded.

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

	Changes in Plan Net Position for the Year Ended December 31, 2014			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Additions				
Investment income:				
Interest and dividend income	\$ 9,915,647	\$ 4,993,569	\$ 734,541	\$ 15,643,757
Net increase in fair value	22,469,444	11,142,818	1,893,005	35,505,267
Less investment related expenses	(2,869,403)	(900,601)	(113,514)	(3,883,518)
Net investment income	<u>29,515,688</u>	<u>15,235,786</u>	<u>2,514,032</u>	<u>47,265,506</u>
Contributions:				
Employer	-	901,797	-	901,797
Employee	-	-	558,823	558,823
Total contributions	<u>-</u>	<u>901,797</u>	<u>558,823</u>	<u>1,460,620</u>
Miscellaneous and litigation revenue	<u>17,454</u>	<u>40,671</u>	<u>3,838</u>	<u>61,963</u>
Total additions	<u>29,533,142</u>	<u>16,178,254</u>	<u>3,076,693</u>	<u>48,788,089</u>
Deductions				
Retirees' pension benefits	27,494,450	19,581,140	-	47,075,590
Retiree health benefit payments	-	-	2,122,813	2,122,813
Administrative expenses	784,783	332,389	70,217	1,187,389
Total deductions	<u>28,279,233</u>	<u>19,913,529</u>	<u>2,193,030</u>	<u>50,385,792</u>
Change in net position	<u>1,253,909</u>	<u>(3,735,275)</u>	<u>883,663</u>	<u>(1,597,703)</u>
Net position:				
Beginning of year	<u>490,472,887</u>	<u>244,520,205</u>	<u>38,459,423</u>	<u>773,452,515</u>
End of year	<u>\$ 491,726,796</u>	<u>\$ 240,784,930</u>	<u>\$ 39,343,086</u>	<u>\$ 771,854,812</u>

18. CONTINGENT LIABILITIES

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

CITY OF PONTIAC, MICHIGAN

Notes to Financial Statements

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

19. RESTATEMENTS

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities increased by \$206,708,716 and beginning net position of both business-type activities and the parking enterprise fund increased by \$2,105,412.

In addition, beginning net position of governmental activities was increased by \$16,292,510 and beginning net position of the Tax Increment Finance Authority component unit was decreased by \$4,989,543, to account for adjustments needed as a result of a capital asset valuation performed in the current year.

20. DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

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

	General	Major Streets	Sanitation	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaid items	\$ 877,133	\$ -	\$ 15	\$ 47,397	\$ 924,545
Restricted					
Roads	-	2,954,217	-	2,265,699	5,219,916
Drug enforcement	-	-	-	266,111	266,111
Capital projects	-	-	-	661,967	661,967
Sanitation	-	-	4,780,859	-	4,780,859
Drains	-	-	-	399,172	399,172
Senior activities	-	-	-	1,007,639	1,007,639
Community development	-	-	-	4,972	4,972
Cable television	-	-	-	1,097,778	1,097,778
Total restricted	-	2,954,217	4,780,859	5,703,338	13,438,414
Unassigned	9,881,533	-	-	-	9,881,533
Total fund balances	\$ 10,758,666	\$ 2,954,217	\$ 4,780,874	\$ 5,750,735	\$ 24,244,492



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

	Fiscal Year Ended June 30, 2015
Change in total pension liability	
Service cost	\$ 279,187
Interest	19,973,828
Differences between expected and actual experience	(2,538,358)
Benefit payments, including refunds of member contributions	(27,507,232)
Net change in total pension liability	<u>(9,792,575)</u>
Total pension liability, beginning	<u>279,931,726</u>
Total pension liability, ending (a)	<u>270,139,151</u>
Change in plan fiduciary net position	
Net investment income	29,460,854
Benefit payments, including refunds of member contributions	(27,507,232)
Administrative expense	(699,715)
Net change in plan fiduciary net position	<u>1,253,907</u>
Plan fiduciary net position, beginning	<u>490,472,889</u>
Plan fiduciary net position, ending (b)	<u>491,726,796</u>
City's net pension asset, ending (a)-(b)	<u><u>\$(221,587,645)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	182.03%
Covered-employee payroll	\$ 1,478,241
City's net pension asset as a percentage of covered payroll	14,989.95%

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

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information General Employees' Retirement System

Schedule of the Net Pension Asset

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Asset as Percentage of Covered Payroll
2015	\$ 270,139,151	\$ 491,726,796	\$ (221,587,645)	182.03%	\$ 1,478,241	14,989.95%

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

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information General Employees' Retirement System

Schedule of Contributions

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

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

Notes to Schedule of Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2014.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	4.5%
Salary increases	5.6 - 9.4% (includes inflation)
Investment rate of return	7.5%
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality rates	1983 Group annuity table for males and females with a 5-year set forward used for disabled lives
Other information	Post-retirement adjustment Court/MAPE - 2.5% of original retirement income for 14 years All others - 2.0% of original retirement income for 18 years

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information

General Employees' Retirement System

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return ⁽¹⁾
2015	6.76%

⁽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 Employees' Retirement System

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

	Fiscal Year Ended June 30, 2015
Change in total pension liability	
Interest	\$ 17,801,885
Differences between expected and actual experience	67,662
Benefit payments, including refunds of member contributions	(19,581,140)
Net change in total pension liability	<u>(1,711,593)</u>
Total pension liability, beginning	<u>247,149,039</u>
Total pension liability, ending (a)	<u>245,437,446</u>
Change in plan fiduciary net position	
Contributions - employer	901,797
Net investment income	15,235,786
Benefit payments, including refunds of member contributions	(19,581,140)
Administrative expense	(332,389)
Other	40,671
Net change in plan fiduciary net position	<u>(3,735,275)</u>
Plan fiduciary net position, beginning	<u>244,520,205</u>
Plan fiduciary net position, ending (b)	<u>240,784,930</u>
City's net pension liability, ending (a)-(b)	<u>\$ 4,652,516</u>
Plan fiduciary net position as a percentage of the total pension liability	98.10%
Covered-employee payroll	\$ -
City's net pension liability as a percentage of covered payroll	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 Employees' Retirement System

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$245,437,446	\$ 240,784,930	\$ 4,652,516	98.10%	\$ -	0.00%

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 Employees' Retirement System

Schedule of Contributions

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

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

Notes to Schedule of Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2014.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	N/A
Amortization method	Level dollar, closed
Remaining amortization period	29 years
Asset valuation method	4-year smoothed market
Inflation	0.0%
Salary increases	N/A
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Mortality rates	1994 Group Annuity Mortality Table, set back one year for males and females
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 to a maximum of 50%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information Police and Fire Employees' Retirement System

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return ⁽¹⁾
2015	6.22%

⁽¹⁾ Time-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)
12/31/2008	\$ 31,405,001	\$ 113,221,193	\$ 81,816,192	27.7%	\$ 9,749,807	839.2%
12/31/2009	32,313,276	125,406,797	93,093,521	25.8%	7,405,796	1,257.0%
12/31/2010	34,821,105	115,446,247	80,625,142	30.2%	6,667,866	1,209.2%
3/1/2012 **	29,667,807	137,140,392	107,472,585	21.6%	-	n/a
12/31/2012***	33,094,620	109,631,892	76,537,272	30.2%	-	n/a
12/31/2013****	36,229,622	61,628,696	25,399,074	58.8%	-	n/a

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

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

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

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

Schedule of Employer Contributions		
Year Ended June 30	Annual Required Contribution (ARC) ***	Amount Contributed *
2010	\$ 6,780,645	\$ 3,158,681
2011	6,598,669	-
2012	6,570,422	3,243,332 **
2013	5,663,685	-
2014	3,919,277	-
2015	1,863,176	-

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

** Amount shown as contributions during the year ended June 30, 2012 relate to contributions due during 2011 and 2010 that were received in 2012. Contributions for 2012 are currently in litigation.

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

Amortization method	Level dollar
Amortization period	30 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Alternate investment rate of return	5.0%
Medical inflation rate, graded down in 0.5% increments over 12 years	5.6%

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information
Retiree Health Care Plan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	\$ -	\$ 90,952,284	\$ 90,952,284	0.0%	\$ 29,840,682	304.8%
12/31/2009	-	73,645,892	73,645,892	0.0%	19,985,942	368.5%
12/31/2012	-	154,890,258	154,890,258	0.0%	1,070,651	14,466.9%
12/31/2014	-	181,240,639	181,240,639	0.0%	1,125,878	16,097.7%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2010	12/31/2009	\$ 3,590,354	91.6%
2011	12/31/2009	3,590,354	101.2%
2012	12/31/2009	3,590,354	73.8%
* 2013	12/31/2012	10,058,807	-120.5%
2014	12/31/2012	10,058,807	43.0%
2015	12/31/2014	10,940,117	15.7%

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

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 16,003,425	\$ 15,825,476	\$ 19,352,111	\$ 3,526,635
Licenses and permits	2,673,200	2,716,500	1,948,247	(768,253)
Federal revenue	25,000	-	-	-
State revenue	9,006,266	9,451,747	9,406,715	(45,032)
Charges for services	1,201,382	1,316,369	1,486,761	170,392
Interest	-	20,201	24,982	4,781
Other revenue	914,516	1,224,001	1,389,096	165,095
Total revenues	29,823,789	30,554,294	33,607,912	3,053,618
Expenditures				
Current:				
General government	3,799,388	3,611,845	3,134,485	(477,360)
Public safety	21,000,155	21,442,635	19,752,760	(1,689,875)
Public works	1,309,036	1,436,581	1,302,932	(133,649)
Community and economic development	667,787	1,192,838	883,313	(309,525)
Recreation and culture	212,320	178,925	147,770	(31,155)
Other expenditures	2,030,000	2,425,240	2,340,302	(84,938)
Total expenditures	29,018,686	30,288,064	27,561,562	(2,726,502)
Revenues over expenditures	805,103	266,230	6,046,350	5,780,120
Other financing sources (uses)				
Transfers in	245,867	250,782	203,801	(46,981)
Transfers out	(1,047,758)	(880,000)	(622,974)	257,026
Total other financing sources (uses)	(801,891)	(629,218)	(419,173)	210,045
Net change in fund balance	3,212	(362,988)	5,627,177	5,990,165
Fund balance, beginning of year	5,131,489	5,131,489	5,131,489	-
Fund balance, end of year	\$ 5,134,701	\$ 4,768,501	\$ 10,758,666	\$ 5,990,165

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Major Streets Special Revenue Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 3,140,380	\$ 3,140,380	\$ 3,376,840	\$ 236,460
Interest	-	-	1,027	1,027
Other revenue	-	53,417	11,238	(42,179)
Total revenues	3,140,380	3,193,797	3,389,105	195,308
Expenditures				
Public works	2,504,361	3,924,543	2,812,988	(1,111,555)
Revenue over (under) expenditures	636,019	(730,746)	576,117	1,306,863
Other financing uses				
Transfers out	(471,100)	(471,100)	(471,100)	-
Net change in fund balance	164,919	(1,201,846)	105,017	1,306,863
Fund balance, beginning of year	2,849,200	2,849,200	2,849,200	-
Fund balance, end of year	\$ 3,014,119	\$ 1,647,354	\$ 2,954,217	\$ 1,306,863

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Sanitation Special Revenue Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 1,336,118	\$ 1,320,767	\$ 1,485,089	\$ 164,322
Charges for services	2,800,000	2,815,351	3,012,738	197,387
Interest	-	-	2,728	2,728
Total revenues	4,136,118	4,136,118	4,500,555	364,437
Expenditures				
Public works	4,063,882	4,063,882	3,466,793	(597,089)
Net change in fund balance	72,236	72,236	1,033,762	961,526
Fund balance, beginning of year	3,747,112	3,747,112	3,747,112	-
Fund balance, end of year	\$ 3,819,348	\$ 3,819,348	\$ 4,780,874	\$ 961,526

CITY OF PONTIAC, MICHIGAN

■ Note to Required Supplemental Information

1. BUDGETARY INFORMATION

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

Budget requests are reviewed by the budget department, finance department and executive office. The final budget is adopted by June 30 each year. The Emergency Manager adopted the final budget through June 30, 2015. City Council adopted the final budget for the June 30, 2016 year end.

The Emergency Manager adopted the 2014-2015 fiscal year budgets for the various funds by function. City officials responsible for the expenditures authorized in the budget may expend City funds up to, but not to exceed, the total appropriated authorized for each function.

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

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



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COMBINING FUND STATEMENTS

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2015

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Assets				
Cash and investments	\$ 2,251,663	\$ -	\$ 397,380	\$ 407,390
Accounts receivable	-	-	-	-
Taxes receivable, net	-	-	-	-
Interest receivable	-	-	-	104
Due from other governments	209,904	168,925	-	-
Prepays	-	-	47,040	-
Total assets	\$ 2,461,567	\$ 168,925	\$ 444,420	\$ 407,494
Liabilities				
Accounts payable	\$ 195,258	\$ -	\$ 4,651	\$ 8,207
Accrued wages	610	-	43,387	-
Due to other governments	-	-	81,681	11
Due to other funds	-	168,925	258,493	-
Deposits payable	-	-	9,168	-
Total liabilities	195,868	168,925	397,380	8,218
Deferred inflows of resources				
Unavailable revenue	-	-	-	104
Fund balances				
Nonspendable	-	-	47,040	-
Restricted	2,265,699	-	-	399,172
Total fund balances	2,265,699	-	47,040	399,172
Total liabilities, deferred inflows of resources and fund balances	\$ 2,461,567	\$ 168,925	\$ 444,420	\$ 407,494



Special Revenue Funds					Capital Projects
Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Cable Fund	Capital Improvement
\$ 4,972	\$ 1,003,211	\$ -	\$ 269,188	\$ 1,069,888	\$ 1,043,838
-	-	-	-	40,804	-
-	42,838	-	-	-	121,826
-	190	-	78	190	-
-	-	-	-	-	-
-	230	-	-	127	-
<u>\$ 4,972</u>	<u>\$ 1,046,469</u>	<u>\$ -</u>	<u>\$ 269,266</u>	<u>\$ 1,111,009</u>	<u>\$ 1,165,664</u>
\$ -	\$ 6,481	\$ -	\$ 3,077	\$ 10,365	\$ 370,797
-	3,057	-	-	2,549	-
-	27,378	-	-	-	128,163
-	-	-	-	-	-
-	200	-	-	-	-
-	37,116	-	3,077	12,914	498,960
-	1,484	-	78	190	4,737
-	230	-	-	127	-
4,972	1,007,639	-	266,111	1,097,778	661,967
4,972	1,007,869	-	266,111	1,097,905	661,967
<u>\$ 4,972</u>	<u>\$ 1,046,469</u>	<u>\$ -</u>	<u>\$ 269,266</u>	<u>\$ 1,111,009</u>	<u>\$ 1,165,664</u>

continued...

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2015

	Capital Projects	
	Clinton River Linear Park Trail	Total
Assets		
Cash and investments	\$ -	\$ 6,447,530
Accounts receivable	-	40,804
Taxes receivable, net	-	164,664
Interest receivable	-	562
Due from other governments	-	378,829
Prepays	-	47,397
Total assets	<u>\$ -</u>	<u>\$ 7,079,786</u>
Liabilities		
Accounts payable	\$ -	\$ 598,836
Accrued wages	-	49,603
Due to other governments	-	237,233
Due to other funds	-	427,418
Deposits payable	-	9,368
Total liabilities	<u>-</u>	<u>1,322,458</u>
Deferred inflows of resources		
Unavailable revenue	-	6,593
Fund balances		
Nonspendable	-	47,397
Restricted	-	5,703,338
Total fund balances	<u>-</u>	<u>5,750,735</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ -</u>	<u>\$ 7,079,786</u>

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CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds			
	Local Streets	PA-48 Tele-communication Allocation	District Court	Chapter 20 Drain
Revenues				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 159
Federal revenue	-	-	-	-
State revenue	1,345,759	168,925	182,896	-
Fines and forfeitures	-	-	1,609,075	-
Interest	-	-	2,198	693
Other revenue	-	-	182,819	-
Total revenues	1,345,759	168,925	1,976,988	852
Expenditures				
Current expenditures:				
General government	-	-	-	-
District court	-	-	2,613,608	-
Public safety	-	-	-	-
Public works and utilities	1,282,325	-	-	147,891
Community and economic development	-	-	-	-
Community and human services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	1,282,325	-	2,613,608	147,891
Revenues over (under) expenditures	63,434	168,925	(636,620)	(147,039)
Other financing sources (uses)				
Transfers in	471,100	-	622,974	-
Transfers out	-	(168,925)	(23,460)	-
Total other financing sources (uses)	471,100	(168,925)	599,514	-
Net change in fund balances	534,534	-	(37,106)	(147,039)
Fund balances (deficit), beginning of year	1,731,165	-	84,146	546,211
Fund balances, end of year	\$ 2,265,699	\$ -	\$ 47,040	\$ 399,172

Special Revenue Funds					Capital Projects
Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund	Cable Fund	Capital Improvement
\$ -	\$ 303,826	\$ -	\$ -	\$ -	\$ 812,171
-	-	89,822	-	-	-
-	-	-	-	-	-
-	-	-	45,212	-	-
-	1,076	-	579	1,076	90
150	13,702	-	-	154,867	-
150	318,604	89,822	45,791	155,943	812,261
-	-	-	-	139,477	-
-	-	-	-	-	-
-	-	-	54,696	-	-
-	-	-	-	-	-
-	-	29,001	-	-	-
-	304,796	-	-	-	-
-	-	-	-	-	580,615
-	304,796	29,001	54,696	139,477	580,615
150	13,808	60,821	(8,905)	16,466	231,646
-	-	-	-	-	-
(11,416)	-	-	-	-	-
(11,416)	-	-	-	-	-
(11,266)	13,808	60,821	(8,905)	16,466	231,646
16,238	994,061	(60,821)	275,016	1,081,439	430,321
\$ 4,972	\$ 1,007,869	\$ -	\$ 266,111	\$ 1,097,905	\$ 661,967

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CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Capital Projects	
	Clinton River Linear Park Trail	Total
Revenues		
Taxes and special assessments	\$ -	\$ 1,116,156
Federal revenue	-	89,822
State revenue	274,664	1,972,244
Fines and forfeitures	-	1,654,287
Interest	-	5,712
Other revenue	-	351,538
Total revenues	<u>274,664</u>	<u>5,189,759</u>
Expenditures		
Current expenditures:		
General government	-	139,477
District court	-	2,613,608
Public safety	-	54,696
Public works and utilities	-	1,430,216
Community and economic development	-	29,001
Community and human services	-	304,796
Capital outlay	-	580,615
Total expenditures	<u>-</u>	<u>5,152,409</u>
Revenues over (under) expenditures	<u>274,664</u>	<u>37,350</u>
Other financing sources (uses)		
Transfers in	-	1,094,074
Transfers out	-	(203,801)
Total other financing sources (uses)	<u>-</u>	<u>890,273</u>
Net change in fund balances	274,664	927,623
Fund balances (deficit), beginning of year	<u>(274,664)</u>	<u>4,823,112</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 5,750,735</u>

concluded.

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2015

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Assets				
Current assets:				
Cash and investments	\$ 2,115,459	\$ 1,288,251	\$ 508,363	\$ 3,912,073
Accounts receivable	46,519	476,509	-	523,028
Due from other governments	-	18,877	-	18,877
Prepays	25,079	2,443,460	-	2,468,539
Total assets	2,187,057	4,227,097	508,363	6,922,517
Liabilities				
Current liabilities:				
Accounts payable	57,465	4,621	-	62,086
Accrued liabilities	1,407,782	1,564,719	-	2,972,501
Accrued wages	-	1,046	-	1,046
Unearned revenue	-	11,005	-	11,005
Current portion of compensated absences	-	-	117,409	117,409
Total current liabilities	1,465,247	1,581,391	117,409	3,164,047
Noncurrent liabilities - Compensated absences	-	-	390,637	390,637
Total liabilities	1,465,247	1,581,391	508,046	3,554,684
Net position				
Unrestricted	\$ 721,810	\$ 2,645,706	\$ 317	\$ 3,367,833

CITY OF PONTIAC, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2015

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	\$ 197,157	\$ 4,413,532	\$ 36,552	\$ 4,647,241
Operating expenses				
Insurance	-	4,052,631	-	4,052,631
Sick and vacation payouts	-	-	36,552	36,552
Workers' compensation expense - net of change in liability	(53,548)	-	-	(53,548)
Total operating expenses	(53,548)	4,052,631	36,552	4,035,635
Operating income	250,705	360,901	-	611,606
Nonoperating revenue				
Interest income	1,268	761	317	2,346
Change in net position	251,973	361,662	317	613,952
Net position, beginning of year	469,837	2,284,044	-	2,753,881
Net position, end of year	<u>\$ 721,810</u>	<u>\$ 2,645,706</u>	<u>\$ 317</u>	<u>\$ 3,367,833</u>

CITY OF PONTIAC, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2015

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities				
Cash received from interfund services	\$ 475,933	\$ 4,452,536	\$ 36,552	\$ 4,965,021
Cash payments for goods and services	(282,476)	(5,361,257)	-	(5,643,733)
Cash payments to employees	-	(34,235)	(18,929)	(53,164)
Net cash provided by (used in) operating activities	193,457	(942,956)	17,623	(731,876)
Cash flows from investing activities				
Interest income	1,268	761	317	2,346
Net change in cash and investments	194,725	(942,195)	17,940	(729,530)
Cash and investments, beginning of year	1,920,734	2,230,446	490,423	4,641,603
Cash and investments, end of year	\$ 2,115,459	\$ 1,288,251	\$ 508,363	\$ 3,912,073
Reconciliation of operating income to net cash provided by (used in) operating activities				
Operating income	\$ 250,705	\$ 360,901	\$ -	\$ 611,606
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Change in:				
Accounts receivable	278,776	39,004	-	317,780
Due from other governments	-	(18,877)	-	(18,877)
Prepays	(25,079)	(1,039,714)	-	(1,064,793)
Accounts payable	31,273	(233)	-	31,040
Accrued liabilities	(342,218)	(295,281)	-	(637,499)
Accrued payroll	-	239	-	239
Unearned revenue	-	11,005	-	11,005
Compensated absences	-	-	17,623	17,623
Net cash provided by (used in) operating activities	\$ 193,457	\$ (942,956)	\$ 17,623	\$ (731,876)

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CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2015

	District Court- Agency	Current Tax Collection	Fire Insurance	Water Resources Commissioner	Total
Assets					
Cash and cash equivalents	\$ 123,711	\$ -	\$ 235,153	\$ 1,173,360	\$ 1,532,224
Liabilities					
Accounts payable	\$ 205	\$ -	\$ -	\$ -	\$ 205
Accrued liabilities and other	-	-	235,153	-	235,153
Due to other governments	-	-	-	1,173,360	1,173,360
Deposits payable	123,506	-	-	-	123,506
Total liabilities	\$ 123,711	\$ -	\$ 235,153	\$ 1,173,360	\$ 1,532,224

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Component Units

June 30, 2015

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Assets				
Cash and investments	\$ 130,013	\$ 291,378	\$ 46	\$ 421,437
Property taxes receivable - net	1,404	97,445	68,166	167,015
Due from other funds	-	9,171	-	9,171
Total assets	\$ 131,417	\$ 397,994	\$ 68,212	\$ 597,623
Liabilities				
Accounts payable	\$ 24,914	\$ -	\$ -	\$ 24,914
Due to other governments	105,099	141,907	44,330	291,336
Financial guarantee	1,143,489	206,082	-	1,349,571
Due to other funds	-	-	9,171	9,171
Total liabilities	1,273,502	347,989	53,501	1,674,992
Deferred inflows of resources				
Unavailable revenue	1,404	9,095	3,147	13,646
Fund balances				
Restricted	-	40,910	11,564	52,474
Unassigned (deficit)	(1,143,489)	-	-	(1,143,489)
Total fund balances (deficit)	(1,143,489)	40,910	11,564	(1,091,015)
Total liabilities, deferred inflows of resources and fund balances	\$ 131,417	\$ 397,994	\$ 68,212	\$ 597,623



Brownfield Redevelopment Authority	Total
\$ 225,484	\$ 646,921
-	167,015
-	9,171
<u>\$ 225,484</u>	<u>\$ 823,107</u>
\$ -	\$ 24,914
3,544	294,880
-	1,349,571
-	9,171
<u>3,544</u>	<u>1,678,536</u>
<u>-</u>	<u>13,646</u>
221,940	274,414
-	(1,143,489)
<u>221,940</u>	<u>(869,075)</u>
<u>\$ 225,484</u>	<u>\$ 823,107</u>

CITY OF PONTIAC, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
Component Units
June 30, 2015

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances (deficits) for component units	\$ (1,143,489)	\$ 40,910	\$ 11,564	\$ (1,091,015)
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	1,404	9,095	3,147	13,646
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.				
	-	682,275	-	682,275
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	(21,586)	(166,093)	-	(187,679)
Bonds payable	(3,010,000)	(21,915,000)	-	(24,925,000)
Property tax settlements	(84,088)	-	-	(84,088)
Net position for component units	\$ (4,257,759)	\$ (21,348,813)	\$ 14,711	\$ (25,591,861)



Brownfield Redevelopment Authority	Total
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\$ 221,940	\$ (869,075)
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-	13,646
---	--------

-	682,275
---	---------

-	(187,679)
---	-----------

-	(24,925,000)
---	--------------

-	(84,088)
---	----------

<u>\$ 221,940</u>	<u>\$ (25,369,921)</u>
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CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Component Units

For the Year Ended June 30, 2015

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Revenues				
Taxes	\$ (100,144)	\$ 1,285,952	\$ 402,774	\$ 1,588,582
Contributions from primary government	636,562	-	-	636,562
Other revenue	38,150	100,000	-	138,150
Total revenues	<u>574,568</u>	<u>1,385,952</u>	<u>402,774</u>	<u>2,363,294</u>
Expenditures				
Commercial and industrial development	-	-	-	-
Financial guarantee	574,569	-	-	574,569
Debt service:				
Principal	430,000	745,000	-	1,175,000
Interest and fiscal charges	144,569	1,022,633	-	1,167,202
Total expenditures	<u>1,149,138</u>	<u>1,767,633</u>	<u>-</u>	<u>2,916,771</u>
Revenues over (under) expenditures	<u>(574,570)</u>	<u>(381,681)</u>	<u>402,774</u>	<u>(553,477)</u>
Other financing sources (uses)				
Transfers in	-	548,529	-	548,529
Transfers out	-	-	(548,529)	(548,529)
Total other financing sources (uses)	<u>-</u>	<u>548,529</u>	<u>(548,529)</u>	<u>-</u>
Net change in fund balances	<u>(574,570)</u>	<u>166,848</u>	<u>(145,755)</u>	<u>(553,477)</u>
Fund balances (deficit), beginning of year	<u>(568,919)</u>	<u>(125,938)</u>	<u>157,319</u>	<u>(537,538)</u>
Fund balances (deficit), end of year	<u><u>\$ (1,143,489)</u></u>	<u><u>\$ 40,910</u></u>	<u><u>\$ 11,564</u></u>	<u><u>\$ (1,091,015)</u></u>



Brownfield Redevelopment Authority	Total
\$ 37,362	\$ 1,625,944
-	636,562
-	138,150
<u>37,362</u>	<u>2,400,656</u>
42,285	42,285
-	574,569
-	1,175,000
-	1,167,202
<u>42,285</u>	<u>2,959,056</u>
<u>(4,923)</u>	<u>(558,400)</u>
-	548,529
-	(548,529)
<u>-</u>	<u>-</u>
(4,923)	(558,400)
<u>226,863</u>	<u>(310,675)</u>
<u>\$ 221,940</u>	<u>\$ (869,075)</u>

CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
Component Units
June 30, 2015

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	\$ (574,570)	\$ 166,848	\$ (145,755)	\$ (553,477)
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.				
	(402)	7,034	2,866	9,498
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	430,000	745,000	-	1,175,000
Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.				
Change in accrued interest on bonds and deferred loss on refunding	2,509	4,346	-	6,855
Change in deferred loss on refunding	-	(42,643)	-	(42,643)
Change in property tax settlements	84,088	-	-	84,088
Change in net position of component units	\$ (58,375)	\$ 880,585	\$ (142,889)	\$ 679,321



Brownfield Redevelopment Authority	Total
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\$ (4,923)	\$ (558,400)
------------	--------------

-	9,498
---	-------

-	1,175,000
---	-----------

-	6,855
---	-------

-	(42,643)
---	----------

-	84,088
---	--------

<u>\$ (4,923)</u>	<u>\$ 674,398</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 15, 2015

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac (the "City"), as of and for the year ended June 30, 2015, 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 15, 2015. Our report includes a reference to other auditors who audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City's financial statements. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

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.

Compliance and Other Matters

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

City of Pontiac's Response to Finding

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

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 Johnson 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, 2015

2015-001 - Capital Asset Prior Period Adjustment

Finding Type. Material weakness in financial reporting as the result of non-implementation of GASB Statement No. 34 requirements.

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

Condition. Adjustments were needed to capital assets and beginning net position - net investment in capital assets, that were material to the City's government-wide financial statements.

Cause. In prior years, management failed to comply with the requirements of GASB Statement No. 34 as it relates to capital asset reporting.

Effect. As a result, beginning net position of governmental activities was understated by \$16,292,510 and beginning net position of the Tax Increment Finance Authority was overstated by \$4,989,543 related to capital assets. These adjustments were necessary to adjust capital assets to agree to a capital asset valuation performed in the current year.

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

View of Responsible Officials. The City has had a material weakness on the capital asset records for at least twelve years related to inadequate detail records to support capital asset balances. The capital asset balances reported in prior years were the result of years of manual historical schedules prepared by former City staff and auditors. In 2014, the City adopted a new capital asset policy and removed certain items from the capital asset records to conform to the new policy. In 2015, the City hired an outside party to prepare detail records of the estimated capital asset historical cost values on significant capital assets per the capital asset policy. As a result, the balance of capital assets held at the beginning of 2015 was adjusted to agree to the estimated historical cost list provided by the outside party. Going forward, the City plans to maintain the detail capital asset records in accordance with generally accepted accounting principles.



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