

City of Pontiac,  
Michigan



Year Ended  
June 30, 2022

Financial  
Statements

**Rehmann**

**This page intentionally left blank.**

# CITY OF PONTIAC, MICHIGAN

## Table of Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of Fund Balances of Governmental Funds to	
Net Position of Governmental Activities	23
Statement of Revenues, Expenditures and Changes in Fund Balances –	
Governmental Funds	24
Reconciliation of Net Changes in Fund Balances of Governmental Funds to	
Changes in Net Position of Governmental Activities	27
Statement of Net Position – Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Fund	
Net Position – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	31
Statement of Fiduciary Net Position – Fiduciary Funds	32
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	34
Combining Statement of Net Position – Discretely Presented Component Units	35
Combining Statement of Activities – Discretely Presented Component Units	36
Notes to Financial Statements	37
<b>Required Supplementary Information</b>	
General Employees' Retirement System	86
Police and Fire Retirement System	90
Police and Fire Retirement System VEBA	94
Retiree Health Care Plan	98
Budgetary Comparison Schedule – General Fund	100
Budgetary Comparison Schedule – Major Streets Special Revenue Fund	101
Budgetary Comparison Schedule – Progress for Pontiac Special Revenue Fund	102
Budgetary Comparison Schedule – VEBA Retiree Healthcare Opt Out	
Special Revenue Fund	103
Note to Required Supplementary Information	104

# CITY OF PONTIAC, MICHIGAN

## Table of Contents

	<u>Page</u>
<b>Other Supplemental Information</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	106
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	108
Internal Service Funds:	
Combining Statement of Net Position	110
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	111
Combining Statement of Cash Flows	112
Custodial Funds:	
Combining Statement of Fiduciary Net Position	113
Combining Statement of Changes in Fiduciary Net Position	114
Component Units:	
Combining Balance Sheet	115
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	116
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	117
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	118
<b>Internal Control and Compliance</b>	
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 <i>Government Auditing Standards</i>	121
Schedule of Findings and Responses	123



## INDEPENDENT AUDITORS' REPORT

March 30, 2023

The Honorable Mayor and City Council  
City of Pontiac  
Pontiac, Michigan

### Report on the Audit of the Financial Statements

#### *Qualified and Unmodified Opinions*

We have audited 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, Michigan** (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

We did not audit the financial statements of the following entities, which represent the indicated percentages of total fiduciary funds:

	Percent of Assets	Percent of Additions	Percent of Net Position
General City Employees' Retirement System	67.55%	53.53%	67.71%
Police and Fire Retirement System	26.82%	23.91%	26.89%
Police and Fire Retirement System VEBA	5.60%	4.46%	5.40%

Those statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included for the above entities, are based solely on the report of the other auditors.

#### *Qualified Opinions on the Governmental Activities and the Aggregate Remaining Fund Information*

In our opinion, based on our audit and the report of the other auditors, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Unmodified Opinions on Business-type Activities, the Aggregate Discretely Presented Component Units, and Each Major Fund***

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and each major fund of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Qualified and Unmodified Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Matter Giving Rise to Qualified Opinions on the Governmental Activities and the Aggregate Remaining Fund Information***

Alternative investments amounting to \$119,033,830 (50 percent of fiduciary net position) as of December 31, 2021, have been presented at fair value as measured by the Police and Fire Retirement System. The other auditors reviewed the procedures applied by the Police and Fire Retirement System in valuing the securities and have inspected the underlying documentation. In their opinion, those procedures are not adequate to measure the fair value of the investments in accordance with accounting principles generally accepted in the United States of America. Consequently, they were unable to determine whether any adjustments to these amounts were necessary. As a result, the amount by which this matter would affect the net pension liability of governmental activities related to the Police and Fire Retirement System has not been determined.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the budgetary comparisons for the general fund and each major 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 is the responsibility of management and, 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplemental Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 other supplemental 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 March 30, 2023, 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

As management of the City of Pontiac, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here and contact City Administration at 248-758-3000 if you have any questions.

#### Financial Highlights

• Total net position	\$ 316,565,537
• Change in total net position	17,918,140
• Fund balances, governmental funds	54,562,103
• Change in fund balances, governmental funds	7,158,676
• Unassigned fund balance, general fund	14,615,617
• Change in fund balance, general fund	2,040,097
• Long-term debt outstanding	9,990,218
• Change in long-term debt	(361,184)

#### Overview of the Financial Statements

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

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

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

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

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

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

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

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.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

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

The City maintains numerous individual governmental funds. Information is presented separately for each major fund (general, major streets, Progress for Pontiac, and VEBA retiree healthcare opt out) and combined for the nonmajor funds in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance. Individual fund data for the nonmajor funds is found in the supplemental information.

In compliance with the City's budget ordinance, the City prepared a budget for fiscal year 2021-22. The City Council of the City of Pontiac adopted the 2021-22 fiscal year budget by function. This allows City officials responsible for the expenditures authorized in the budget to expend City funds up to, but not to exceed, the total appropriation authorized for each function. A budgetary comparison schedule has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Phoenix Center which is the City's only enterprise fund. 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 is provided in the form of combining statements in the other supplemental information section of this report.

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

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

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

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

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

#### Government-wide Overall Financial Analysis

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Assets</b>						
Current and other assets	\$ 418,870,840	\$ 359,364,034	\$ 4,300,063	\$ 3,594,047	\$ 423,170,903	\$ 362,958,081
Capital assets, net	94,254,883	95,806,663	8,367,754	8,827,049	102,622,637	104,633,712
<b>Total assets</b>	<u>513,125,723</u>	<u>455,170,697</u>	<u>12,667,817</u>	<u>12,421,096</u>	<u>525,793,540</u>	<u>467,591,793</u>
<b>Deferred outflows of resources</b>	<u>2,496,606</u>	<u>2,248,844</u>	<u>-</u>	<u>-</u>	<u>2,496,606</u>	<u>2,248,844</u>
<b>Liabilities</b>						
Current and other liabilities	106,328,875	110,372,726	411,041	433,343	106,739,916	110,806,069
Long-term debt outstanding	9,990,218	10,351,402	-	-	9,990,218	10,351,402
<b>Total liabilities</b>	<u>116,319,093</u>	<u>120,724,128</u>	<u>411,041</u>	<u>433,343</u>	<u>116,730,134</u>	<u>121,157,471</u>
<b>Deferred inflows of resources</b>	<u>94,134,260</u>	<u>49,500,764</u>	<u>860,215</u>	<u>535,005</u>	<u>94,994,475</u>	<u>50,035,769</u>
<b>Net position</b>						
Net investment in capital assets	94,197,605	95,683,121	8,367,754	8,827,049	102,565,359	104,510,170
Restricted	281,446,893	254,908,253	3,077,390	2,185,712	284,524,283	257,093,965
Unrestricted (deficit)	(70,475,522)	(63,396,725)	(48,583)	439,987	(70,524,105)	(62,956,738)
<b>Total net position</b>	<u>\$ 305,168,976</u>	<u>\$ 287,194,649</u>	<u>\$ 11,396,561</u>	<u>\$ 11,452,748</u>	<u>\$ 316,565,537</u>	<u>\$ 298,647,397</u>

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$316,565,537 at the close of the most recent fiscal year. \$102,565,359 of the City's net position reflects its investment in capital assets (e.g. land, construction in progress, buildings, machinery, equipment, vehicles, leases, and infrastructure), net of any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the City's net position, \$284,524,283, represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted deficit of \$70,524,105.

The City's overall net position increased by \$17,918,140 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 \$17,974,327 from the prior fiscal year for an ending balance of \$305,168,976. This increase is primarily due to a mixture of higher revenues than anticipated and unrealized expenses, such as vacant positions. Other significant changes include:

- Operating grants decreased from the prior year by \$3,524,331 primarily due to the City receiving approximately \$3.0 in Coronavirus Relief funding in the prior year.
- Capital grants decreased from the prior year by \$6,890,126 primarily due to the City receiving approximately \$3.2 million in State grant funds in the prior year for road construction and improvements.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

- Income tax revenue increased from the prior year by \$2,971,169 primarily due to new developments in the City including the Amazon Warehousing Complex which brought in around 3,000 new jobs and warehouse construction brought in additional revenue due to construction labor.
- Other general revenues increased from the prior year by \$8,000,000. This was due to the \$8,000,000 of funding received in the current year from the general employees' retirement system to make payments to eligible retirees who choose to permanently opt out of healthcare benefits.
- General government expenses decreased from the prior year by \$24,780,514 primarily due to a large negative pension expense related to the general employees' pension asset.
- Public safety expenses increased from the prior year by \$25,498,495 primarily due to a large increase in pension expense related to the police and fire OPEB liability.

**Business-type activities.** The City's business-type activities consists of the parking fund. During the current fiscal year, net position for business-type activities decreased by \$56,187 from the prior fiscal year for an ending balance of \$11,396,561. Activity in the parking fund was minimal during the year. Expenses decreased \$8,308,948 primarily due to approximately \$7 million expended in the prior year related to the Phoenix Center. Total expenses were negative due to a large negative pension expense.

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Program revenues</b>						
Charges for services	\$ 5,578,882	\$ 5,328,085	\$ -	\$ -	\$ 5,578,882	\$ 5,328,085
Operating grants	15,117,870	18,642,201	-	143,872	15,117,870	18,786,073
Capital grants	205,705	7,095,831	-	-	205,705	7,095,831
<b>General revenues</b>						
Property taxes	13,220,824	13,069,817	-	-	13,220,824	13,069,817
Income taxes	17,507,238	14,536,069	-	-	17,507,238	14,536,069
Unrestricted state revenues	12,054,330	11,286,559	-	-	12,054,330	11,286,559
Unrestricted investment earnings (loss)	(371,517)	137,822	(89,736)	20,615	(461,253)	158,437
Cable franchise fees	502,488	533,697	-	-	502,488	533,697
Other general revenues	8,070,000	70,000	-	-	8,070,000	70,000
<b>Total revenues</b>	<u>71,885,820</u>	<u>70,700,081</u>	<u>(89,736)</u>	<u>164,487</u>	<u>71,796,084</u>	<u>70,864,568</u>
<b>Expenses</b>						
General government	(7,882,828)	16,897,686	-	-	(7,882,828)	16,897,686
Public safety	45,262,581	19,764,086	-	-	45,262,581	19,764,086
Public works	13,147,525	14,029,086	-	-	13,147,525	14,029,086
Community development	1,216,477	986,191	-	-	1,216,477	986,191
Community and human services	492,176	379,171	-	-	492,176	379,171
Recreation and culture	1,227,961	1,491,127	-	-	1,227,961	1,491,127
Interest on long-term debt	447,601	-	-	-	447,601	-
Parking	-	-	(33,549)	8,275,399	(33,549)	8,275,399
<b>Total expenses</b>	<u>53,911,493</u>	<u>53,547,347</u>	<u>(33,549)</u>	<u>8,275,399</u>	<u>53,877,944</u>	<u>61,822,746</u>
<b>Change in net position</b>	17,974,327	17,152,734	(56,187)	(8,110,912)	17,918,140	9,041,822
Net position, beginning of year	287,194,649	270,041,915	11,452,748	19,563,660	298,647,397	289,605,575
<b>Net position, end of year</b>	<u>\$ 305,168,976</u>	<u>\$ 287,194,649</u>	<u>\$ 11,396,561</u>	<u>\$ 11,452,748</u>	<u>\$ 316,565,537</u>	<u>\$ 298,647,397</u>

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

#### Financial Analysis of the City's Funds

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

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

At June 30, 2022, the City's governmental funds reported combined fund balances of \$54,562,103, an increase of \$7,158,676 in comparison with the prior year. Approximately 27% of this amount, \$14,615,617, 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 (\$104,660), 2) restricted for particular purposes (\$30,494,885), 3) committed for particular purposes (\$3,710,774), or 4) assigned for particular purposes (\$5,636,167).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,615,617, while total fund balance increased to \$23,510,792. 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 37% of the total general fund expenditures, while total fund balance represents approximately 60% of that same amount.

The fund balance of the City's general fund for fiscal year 2022 was \$23,510,792, an increase of \$2,040,097 from the prior fiscal year. The increase was mainly due to increased revenues from income taxes and from one-time grants and reimbursements of public safety costs.

The major streets fund had an increase of \$858,991 in fund balance during the current fiscal year, which increased the overall fund balance to \$6,638,713. This increase was largely due to planned projects being delayed into the following fiscal year.

The Progress for Pontiac fund was established towards the end of this fiscal year. This fund was created to receive and expend funds from the federal American Rescue Plan that was enacted in 2021. In June 2021, the City received approximately \$18.9 million. No funds were spent prior to the end of this fiscal year.

The VEBA retiree healthcare opt out fund had ending fund balance of \$4,000,000. \$8,000,000 was budgeted during the creation of the VEBA to facilitate opt-out payments to retirees who would choose not to take advantage of the VEBA provided healthcare. As of June 30, 2022, \$4,000,000 was dispersed through that fund.

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

The parking fund was largely inactive as on-street parking was given to a third party who did not operate during the year.

#### General Fund Budgetary Highlights

**Original budget compared to final budget.** Over the course of the year, the City amended the budget to take into account events during the year. The significant portion of which was for general government expenditures.

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

- Total revenues exceeded the final budget by \$4,156,875 which is mostly due to income tax collections, net of refunds, exceeding final budget estimates by \$2,128,457. Additionally, state revenue came in \$1,379,306 over budget primarily due to the census adjustment.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

- Total expenditures came in \$1,513,609 less than budgeted. Significant savings resulted from less than anticipated expenditures for the following:
  - The general government function was less than anticipated. Expenditures were \$1,605,278 less than budget mainly due to unfilled positions.
  - Public safety function came in \$518,364 more than budget mainly due to final overtime expenses being higher than projected and increased contractual costs with the City's Emergency Dispatch Services.
  - Public works function was \$377,439 less than budget.
  - Community and economic development function was \$406,319 less than budget at the end of the fiscal year. This decrease was due to lower than projected expenditures for employee staffing along with other expenditure categories.
  - Recreation and culture function was \$122,992 less than budget, mainly due to ending a lease on a facility.
  - Principal and interest and fiscal charges came in \$741,834 more than budget due to the City not budgeting for the payments related to the Ottawa Towers settlement.

### Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2022, amounts to \$102,622,637 (net of accumulated depreciation/amortization). The investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, vehicles, land improvements, and leases.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 25,105,058	\$ 25,105,058	\$ 3,042,537	\$ 3,042,537	\$ 28,147,595	\$ 28,147,595
Construction in progress	3,131,381	4,265,759	688,127	664,015	3,819,508	4,929,774
Streets and bridges	63,018,558	64,566,949	-	-	63,018,558	64,566,949
Buildings and improvements	2,088,323	601,084	4,637,090	5,120,497	6,725,413	5,721,581
Machinery and equipment	618,266	823,266	-	-	618,266	823,266
Vehicles	98,895	170,814	-	-	98,895	170,814
Land improvements	132,631	150,191	-	-	132,631	150,191
Leased building	61,771	123,542	-	-	61,771	123,542
<b>Total</b>	<b>\$ 94,254,883</b>	<b>\$ 95,806,663</b>	<b>\$ 8,367,754</b>	<b>\$ 8,827,049</b>	<b>\$ 102,622,637</b>	<b>\$ 104,633,712</b>

Additional information on the City's capital assets can be found in the notes to the financial statements.

**Long-term debt.** At the end of the current fiscal year, the City had total indebtedness of \$9,990,218.

The City's total indebtedness decreased by \$361,184 during the current fiscal year primarily due to a \$741,416 reduction in the TIFA guarantee.

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

Additional information on the City's long-term debt can be found in the notes to the financial statements.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

#### Economic Factors and Next Year's Budgets and Rates

- In the next fiscal year, the City is focusing on rebuilding. The City will bring back in-house as many services as possible so that the City can be in more direct control of its ability to deliver services. The City has already brought winter maintenance in-house and been successful in ensuring that the roads are passable within 24 hours of cessation of the winter weather event. The same commitment is in place for other departments, including code enforcement and building. Additionally, the City has realigned departments to create synergies and more efficient workflows. The City believes that this focus on service delivery will result in greater customer satisfaction, which will in turn translate into a growth in demand for residences, increased property values and also a retention of residents, which will allow for an overall growth in the population.
- The City's largest source of revenue is local income tax. Income tax revenue continues to outpace budget assumptions. The City's second largest source of revenue is from city, village, and township revenue sharing. City property tax collections are the third largest source of revenue for the City. As part of a renewed interest in service delivery, the City requested, and residents approved, a Headlee override of the general operating mills. This change is estimated to increase property tax captures by over \$1.2 million. The City does not have an outsized office population, and, as such, it does not expect a large reduction in income taxes.
- The City has seen great interest in new construction. There have been many new applicants for small scale retail shops. Additionally, new market rate apartments are being constructed and there was a resurgence in building permits. Just using the five largest projects, over \$38 million was added since the last assessment. The City is cautiously optimistic that overall property valuation of the community will see solid and sustainable growth in the next year.

#### Requests for Information

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

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# CITY OF PONTIAC, MICHIGAN

## Statement of Net Position

June 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 54,253,684	\$ 361,366	\$ 54,615,050	\$ 490,705
Receivables, net	13,348,845	1,092	13,349,937	95,921
Other assets	6,165,867	-	6,165,867	-
Restricted assets	20,906,266	-	20,906,266	-
Capital assets not being depreciated	28,236,439	3,730,664	31,967,103	-
Capital assets being depreciated/amortized, net	66,018,444	4,637,090	70,655,534	-
Net pension asset	324,196,178	3,937,605	328,133,783	-
<b>Total assets</b>	<b>513,125,723</b>	<b>12,667,817</b>	<b>525,793,540</b>	<b>586,626</b>
<b>Deferred outflows of resources</b>				
Deferred charge on refunding	-	-	-	383,780
Deferred pension amounts	2,496,606	-	2,496,606	-
<b>Total deferred outflows of resources</b>	<b>2,496,606</b>	<b>-</b>	<b>2,496,606</b>	<b>383,780</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	11,296,553	11,418	11,307,971	158,285
Unearned revenue	19,633,413	-	19,633,413	-
Leases payable (due within one year)	57,278	-	57,278	-
Long-term liabilities:				
Due within one year	1,869,244	-	1,869,244	1,985,000
Due in more than one year	8,120,974	-	8,120,974	13,065,000
Financial guarantee	-	-	-	6,526,469
Net pension liability (due in more than one year)	9,073,861	-	9,073,861	-
Net other postemployment benefit liability (due in more than one year)	66,267,770	399,623	66,667,393	-
<b>Total liabilities</b>	<b>116,319,093</b>	<b>411,041</b>	<b>116,730,134</b>	<b>21,734,754</b>
<b>Deferred inflows of resources</b>				
Deferred pension amounts	89,372,201	860,215	90,232,416	-
Deferred other postemployment benefit amounts	3,277,658	-	3,277,658	-
Deferred lease amounts	1,484,401	-	1,484,401	-
<b>Total deferred inflows of resources</b>	<b>94,134,260</b>	<b>860,215</b>	<b>94,994,475</b>	<b>-</b>
<b>Net position</b>				
Net investment in capital assets	94,197,605	8,367,754	102,565,359	-
Restricted for:				
Roads	8,658,816	-	8,658,816	-
Healthcare payouts	4,000,000	-	4,000,000	-
Drug enforcement	167,522	-	167,522	-
Capital projects	3,769,859	-	3,769,859	-
Sanitation	5,147,354	-	5,147,354	-
Senior activities	896,118	-	896,118	-
Community development	30,335	-	30,335	-
Home buyers assistance	23,638	-	23,638	-
Youth recreation	949,862	-	949,862	-
Cable television	1,094,229	-	1,094,229	-
Telecommunications	23,222	-	23,222	-
Building inspection	4,174,365	-	4,174,365	-
Pension benefits	252,511,573	3,077,390	255,588,963	-
Unrestricted (deficit)	(70,475,522)	(48,583)	(70,524,105)	(20,764,348)
<b>Total net position (deficit)</b>	<b>\$ 305,168,976</b>	<b>\$ 11,396,561</b>	<b>\$ 316,565,537</b>	<b>\$ (20,764,348)</b>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ (7,882,828)	\$ 1,582,971	\$ 2,367,962	\$ -	\$ 11,833,761
Public safety	45,262,581	619,160	2,993,618	-	(41,649,803)
Public works	13,147,525	3,270,516	9,449,136	205,705	(222,168)
Community development	1,216,477	97,900	301,954	-	(816,623)
Community and human services	492,176	-	-	-	(492,176)
Recreation and culture	1,227,961	8,335	5,200	-	(1,214,426)
Interest on long-term debt	447,601	-	-	-	(447,601)
Total governmental activities	53,911,493	5,578,882	15,117,870	205,705	(33,009,036)
Business-type activities -					
Parking fund	(33,549)	-	-	-	33,549
Total primary government	\$ 53,877,944	\$ 5,578,882	\$ 15,117,870	\$ 205,705	\$ (32,975,487)
Component units					
Tax Increment Financing Authority	\$ 1,519,855	\$ 50,000	\$ 696,012	\$ -	\$ (773,843)
Brownfield Redevelopment Authority	65,367	-	-	-	(65,367)
Total component units	\$ 1,585,222	\$ 50,000	\$ 696,012	\$ -	\$ (839,210)

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
<b>Changes in net position</b>				
Net revenues (expenses)	\$ (33,009,036)	\$ 33,549	\$ (32,975,487)	\$ (839,210)
General revenues				
Property taxes	13,220,824	-	13,220,824	1,643,350
Income taxes	17,507,238	-	17,507,238	-
Unrestricted state revenues	12,054,330	-	12,054,330	299,189
Unrestricted investment earnings (loss)	(371,517)	(89,736)	(461,253)	-
Cable franchise fees	502,488	-	502,488	-
Other general revenues	8,070,000	-	8,070,000	-
Total general revenues	50,983,363	(89,736)	50,893,627	1,942,539
<b>Change in net position</b>	17,974,327	(56,187)	17,918,140	1,103,329
Net position, beginning of year	287,194,649	11,452,748	298,647,397	(21,867,677)
<b>Net position, end of year</b>	<u>\$ 305,168,976</u>	<u>\$ 11,396,561</u>	<u>\$ 316,565,537</u>	<u>\$ (20,764,348)</u>

concluded.

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

**This page intentionally left blank.**

## **FUND FINANCIAL STATEMENTS**

# CITY OF PONTIAC, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2022

	General	Major Streets	Progress for Pontiac
<b>Assets</b>			
Cash and investments	\$ 21,679,130	\$ 6,204,119	\$ -
Accounts receivable, net	545,216	159,335	-
Taxes receivable, net	5,198,007	-	-
Leases receivable	1,484,401	-	-
Interest receivable	216,871	192	-
Due from other governments	2,030,272	988,895	-
Due from other funds	3,961,050	402,742	-
Interfund receivable	1,152,633	-	-
Prepays	59,008	15,077	-
Restricted assets	-	-	18,858,977
<b>Total assets</b>	<b>\$ 36,326,588</b>	<b>\$ 7,770,360</b>	<b>\$ 18,858,977</b>
<b>Liabilities</b>			
Accounts payable	\$ 5,104,711	\$ 965,864	\$ -
Accrued wages	44,593	6,448	-
Unearned revenue	90,000	-	18,858,977
Due to other governments	54,644	-	-
Due to other funds	568,005	-	-
Interfund payable	-	-	-
Deposits payable	2,584,196	-	-
<b>Total liabilities</b>	<b>8,446,149</b>	<b>972,312</b>	<b>18,858,977</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue - taxes and due from other governments	2,885,246	159,335	-
Deferred lease amounts	1,484,401	-	-
<b>Total deferred inflows of resources</b>	<b>4,369,647</b>	<b>159,335</b>	<b>-</b>
<b>Fund balances</b>			
Nonspendable	59,008	15,077	-
Restricted	-	6,623,636	-
Committed	3,200,000	-	-
Assigned	5,636,167	-	-
Unassigned	14,615,617	-	-
<b>Total fund balances</b>	<b>23,510,792</b>	<b>6,638,713</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 36,326,588</b>	<b>\$ 7,770,360</b>	<b>\$ 18,858,977</b>

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

--

VEBA Retiree Healthcare Opt Out	Nonmajor Governmental Funds	Totals
\$ 4,020,000	\$ 20,127,954	\$ 52,031,203
-	542,518	1,247,069
-	374,567	5,572,574
-	-	1,484,401
-	2,353	219,416
-	300,233	3,319,400
-	568,005	4,931,797
-	-	1,152,633
-	30,575	104,660
-	2,047,289	20,906,266
<u>\$ 4,020,000</u>	<u>\$ 23,993,494</u>	<u>\$ 90,969,419</u>
\$ 20,000	\$ 1,810,394	\$ 7,900,969
-	39,361	90,402
-	684,436	19,633,413
-	6,344	60,988
-	402,742	970,747
-	14,799	14,799
-	60,898	2,645,094
<u>20,000</u>	<u>3,018,974</u>	<u>31,316,412</u>
-	561,922	3,606,503
-	-	1,484,401
-	561,922	5,090,904
-	30,575	104,660
4,000,000	19,871,249	30,494,885
-	510,774	3,710,774
-	-	5,636,167
-	-	14,615,617
<u>4,000,000</u>	<u>20,412,598</u>	<u>54,562,103</u>
<u>\$ 4,020,000</u>	<u>\$ 23,993,494</u>	<u>\$ 90,969,419</u>

**This page intentionally left blank.**

## CITY OF PONTIAC, MICHIGAN

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2022

<b>Fund balances - total governmental funds</b>	<b>\$ 54,562,103</b>
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	28,236,439
Capital assets being depreciated/amortized, net	66,018,444
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	3,606,503
Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit assets/liabilities 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	(9,073,861)
Net pension asset	324,196,178
Net other postemployment benefit liability	(66,267,770)
Deferred outflows related to the net pension asset and liability	2,496,606
Deferred inflows related to the net pension asset and liability	(89,372,201)
Deferred inflows related to the net other postemployment benefit liability	(3,277,658)
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	3,555,151
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Leases payable	(57,278)
Financial guarantee	(1,491,859)
Lawsuit settlement	(5,636,167)
Landfill closure and postclosure costs	(2,325,654)
<b>Net position of governmental activities</b>	<b><u>\$ 305,168,976</u></b>

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

## CITY OF PONTIAC, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2022

	General	Major Streets	Progress for Pontiac
<b>Revenues</b>			
Property taxes and special assessments	\$ 9,169,417	\$ -	\$ -
Income taxes	17,289,957	-	-
Federal	130,699	-	-
State	12,227,122	6,500,954	-
Charges for services	1,474,425	-	-
Fines and forfeitures	65,470	-	-
Licenses and permits	135,630	-	-
Investment income (loss)	191,202	(8,800)	-
Other	2,118,567	472,211	-
<b>Total revenues</b>	<b>42,802,489</b>	<b>6,964,365</b>	<b>-</b>
<b>Expenditures</b>			
Current:			
General government	6,438,906	-	-
District court	-	-	-
Public safety	23,949,625	-	-
Public works	2,809,947	6,105,374	-
Community and economic development	1,963,229	-	-
Community and human services	-	-	-
Recreation and culture	662,315	-	-
Retiree fringe benefits	2,549,061	-	-
Debt service:			
Principal	294,233	-	-
Lease principal	66,264	-	-
Interest and fiscal charges	447,601	-	-
Capital outlay	-	-	-
<b>Total expenditures</b>	<b>39,181,181</b>	<b>6,105,374</b>	<b>-</b>
Revenues over (under) expenditures	3,621,308	858,991	-
<b>Other financing sources (uses)</b>			
Transfers in	16,056	-	-
Transfers out	(1,927,667)	-	-
Issuance of long-term debt	330,400	-	-
<b>Total other financing sources (uses)</b>	<b>(1,581,211)</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>2,040,097</b>	<b>858,991</b>	<b>-</b>
Fund balances, beginning of year	21,470,695	5,779,722	-
<b>Fund balances, end of year</b>	<b>\$ 23,510,792</b>	<b>\$ 6,638,713</b>	<b>\$ -</b>

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



VEBA Retiree Healthcare Opt Out	Nonmajor Governmental Funds	Totals
\$ -	\$ 4,051,407	\$ 13,220,824
-	-	17,289,957
-	-	130,699
-	2,217,964	20,946,040
-	2,890,611	4,365,036
-	851,605	917,075
-	2,569,631	2,705,261
-	(82,657)	99,745
8,000,000	689,880	11,280,658
8,000,000	13,188,441	70,955,295
4,000,000	718,829	11,157,735
-	2,951,203	2,951,203
-	2,371,586	26,321,211
-	7,282,982	16,198,303
-	-	1,963,229
-	492,176	492,176
-	569,302	1,231,617
-	-	2,549,061
-	-	294,233
-	-	66,264
-	-	447,601
-	454,386	454,386
4,000,000	14,840,464	64,127,019
4,000,000	(1,652,023)	6,828,276
-	1,933,006	1,949,062
-	(21,395)	(1,949,062)
-	-	330,400
-	1,911,611	330,400
4,000,000	259,588	7,158,676
-	20,153,010	47,403,427
\$ 4,000,000	\$ 20,412,598	\$ 54,562,103

**This page intentionally left blank.**

# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Changes in Net Position of Governmental Activities  
For the Year Ended June 30, 2022

**Net changes in fund balances - total governmental funds** \$ 7,158,676

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/amortization expense.

Capital assets purchased/constructed	4,542,458
Depreciation/amortization expense	(6,233,672)
Loss on disposal of capital assets	(66,271)

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.	930,525
--	---------

Bond and lease proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds and leases increases long-term liabilities in the statement of net position. Repayment of bond and lease 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 debt	294,233
Issuance of long-term debt	(330,400)
Principal payments on leases	66,264

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 asset/liability and related deferred amounts	(27,446,515)
Change in net pension asset/liability and related deferred amounts	38,289,880
Change in financial guarantee	741,416
Change in landfill closure and postclosure liability	(184,063)

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.

211,796

**Change in net position of governmental activities** \$ 17,974,327

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Net Position

Proprietary Funds

June 30, 2022

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 361,366	\$ 2,222,481
Accounts receivable	-	1,505,985
Interest receivable	1,092	-
Prepays	-	6,061,207
Total current assets	362,458	9,789,673
Noncurrent assets:		
Capital assets not being depreciated	3,730,664	-
Capital assets being depreciated, net	4,637,090	-
Net pension asset	3,937,605	-
Total noncurrent assets	12,305,359	-
<b>Total assets</b>	12,667,817	9,789,673
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	11,418	220,662
Accrued liabilities	-	378,438
Due to other funds	-	3,961,050
Interfund payable	-	1,137,834
Current portion of compensated absences	-	416,333
Total current liabilities	11,418	6,114,317
Noncurrent liabilities:		
Total other postemployment benefit liability	399,623	-
Compensated absences, net of current portion	-	120,205
Total noncurrent liabilities	399,623	120,205
<b>Total liabilities</b>	411,041	6,234,522
<b>Deferred inflows of resources</b>		
Deferred pension amounts	860,215	-
<b>Net position</b>		
Investment in capital assets	8,367,754	-
Restricted for pension benefits	3,077,390	-
Unrestricted (deficit)	(48,583)	3,555,151
<b>Total net position</b>	\$ 11,396,561	\$ 3,555,151

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

## CITY OF PONTIAC, MICHIGAN

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

Proprietary Funds

For the Year Ended June 30, 2022

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
<b>Operating revenues</b>		
Charges for services	\$ -	\$ 5,887,260
Other	-	708,701
<b>Total revenues</b>	-	6,595,961
<b>Operating expenses</b>		
Insurance	-	6,112,488
Operating and maintenance costs	(598,410)	-
Workers' compensation	-	271,677
Depreciation	564,861	-
<b>Total operating expenses</b>	(33,549)	6,384,165
Operating income	33,549	211,796
<b>Nonoperating revenues</b>		
Investment income (loss)	(89,736)	-
<b>Change in net position</b>	(56,187)	211,796
Net position, beginning of year	11,452,748	3,343,355
<b>Net position, end of year</b>	\$ 11,396,561	\$ 3,555,151

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

**This page intentionally left blank.**

## CITY OF PONTIAC, MICHIGAN

### Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2022

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
<b>Cash flows from operating activities</b>		
Cash payments to suppliers	\$ (315,570)	\$ (5,680,437)
Cash received from interfund services	-	5,678,239
<b>Net cash used in operating activities</b>	(315,570)	(2,198)
<b>Cash flows from investing activities</b>		
Loss on investments	(89,736)	-
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(105,566)	-
<b>Net change in cash and investments</b>	(510,872)	(2,198)
Cash and investments, beginning of year	872,238	2,224,679
<b>Cash and investments, end of year</b>	<u>\$ 361,366</u>	<u>\$ 2,222,481</u>
<b>Reconciliation of operating income to net cash used in operating activities</b>		
Operating income	\$ 33,549	\$ 211,796
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation expense	564,861	-
Change in:		
Accounts receivable	-	(1,077,724)
Prepays	-	(142,214)
Net pension asset	(1,216,888)	-
Accounts payable	(101,762)	162,101
Accrued liabilities	-	(453,993)
Total other postemployment benefit liability	79,460	-
Interfund payable	-	1,137,834
Compensated absences	-	160,002
Deferred inflows of resources related to the pension asset	325,210	-
<b>Net cash used in operating activities</b>	<u>\$ (315,570)</u>	<u>\$ (2,198)</u>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Fiduciary Net Position

### Fiduciary Funds

	December 31, 2021	June 30, 2022
	Pension and OPEB Trust Funds	Custodial Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 9,953,931	\$ 273,603
Investments at fair value or net asset value:		
U.S. government securities	12,257,855	-
Common stocks	363,136,687	-
Corporate bonds	40,302,992	-
Mutual funds	31,528,699	-
Government bonds	34,685,605	-
Municipal and provincial bonds	31,736,573	-
Government agency notes	13,169,430	-
U.S. government mortgage-backed securities	28,306,582	-
Residential and other asset-backed securities	3,203,823	-
Short-term investments	37,363,696	-
International equities	16,700,773	-
Private equity funds	78,310,908	-
Commingled funds:		-
Domestic	23,621,134	-
International	40,421,830	-
Real estate funds	82,972,069	-
Collective trust funds	10,685,684	-
Limited partnerships	27,680,563	-
Accrued interest receivable	1,239,387	-
Other receivables	225,461	-
Due from Police and Fire Retirement System VEBA	84,503	-
Due from other governments	-	10,424
<b>Total assets</b>	<b>887,588,185</b>	<b>284,027</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Fiduciary Net Position

### Fiduciary Funds

	December 31, 2021	June 30, 2022
	Pension and OPEB Trust Funds	Custodial Funds
<b>Liabilities</b>		
Accounts payable and other	\$ 1,076,384	\$ 50
Due to City of Pontiac	1,825,522	-
Due to City of Pontiac Police and Fire Retirement System	84,503	-
Due to other governments	-	141,296
Deposits payable	-	142,681
<b>Total liabilities</b>	<u>2,986,409</u>	<u>284,027</u>
<b>Net position restricted for</b>		
Pension benefits	836,819,858	-
Other postemployment benefits	<u>47,781,918</u>	<u>-</u>
<b>Total net position</b>	<u>\$ 884,601,776</u>	<u>\$ -</u>

concluded.

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

## CITY OF PONTIAC, MICHIGAN

### Statement of Changes in Fiduciary Net Position

#### Fiduciary Funds

	For the Year Ended	
	December 31, 2021	June 30, 2022
	Pension and OPEB Trust Funds	Custodial Funds
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 116,586,367	\$ -
Interest and dividends	12,580,785	-
Less investment related expenses	(4,271,537)	-
	<hr/>	<hr/>
Net investment income	124,895,615	-
Contributions -		
Employer	4,745,450	-
Taxes collected for other governments	-	27,785,741
Court collections	-	895,490
Miscellaneous and litigation revenue	58,941	-
	<hr/>	<hr/>
<b>Total additions</b>	<hr/> 129,700,006	<hr/> 28,681,231
<b>Deductions</b>		
Participant benefit payments	51,076,126	-
Administrative expenses	1,200,580	-
Transfers to City	8,000,000	-
Payments of taxes to other governments	-	27,785,741
Court distributions	-	895,490
	<hr/>	<hr/>
<b>Total deductions</b>	<hr/> 60,276,706	<hr/> 28,681,231
<b>Change in net position</b>	69,423,300	-
Net position, beginning of year	<hr/> 815,178,476	<hr/> -
<b>Net position, end of year</b>	<hr/> <hr/> \$ 884,601,776	<hr/> <hr/> \$ -

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

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2022

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
<b>Assets</b>			
Cash and investments	\$ 183,188	\$ 307,517	\$ 490,705
Receivables, net	67,784	28,137	95,921
<b>Total assets</b>	<u>250,972</u>	<u>335,654</u>	<u>586,626</u>
<b>Deferred outflows of resources</b>			
Deferred charge on refunding	<u>383,780</u>	<u>-</u>	<u>383,780</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	119,226	39,059	158,285
Long-term liabilities:			
Due within one year	1,985,000	-	1,985,000
Due in more than one year	13,065,000	-	13,065,000
Financial guarantee	<u>6,526,469</u>	<u>-</u>	<u>6,526,469</u>
<b>Total liabilities</b>	<u>21,695,695</u>	<u>39,059</u>	<u>21,734,754</u>
<b>Net position</b>			
Unrestricted (deficit)	<u>\$ (21,060,943)</u>	<u>\$ 296,595</u>	<u>\$ (20,764,348)</u>

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

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Activities

Discretely Presented Component Units

For the Year Ended June 30, 2022

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
<b>Expenses</b>			
Commercial and industrial development	\$ -	\$ 65,367	\$ 65,367
Financial guarantee	696,012	-	696,012
Interest on long-term debt	823,843	-	823,843
<b>Total expenses</b>	<u>1,519,855</u>	<u>65,367</u>	<u>1,585,222</u>
<b>Program revenues</b>			
Charges for services	50,000	-	50,000
Operating grants and contributions	696,012	-	696,012
<b>Total program revenues</b>	<u>746,012</u>	<u>-</u>	<u>746,012</u>
Net program expense	<u>(773,843)</u>	<u>(65,367)</u>	<u>(839,210)</u>
<b>General revenues</b>			
Property taxes	1,603,301	40,049	1,643,350
Unrestricted state revenues	299,189	-	299,189
<b>Total general revenues</b>	<u>1,902,490</u>	<u>40,049</u>	<u>1,942,539</u>
<b>Change in net position</b>	<u>1,128,647</u>	<u>(25,318)</u>	<u>1,103,329</u>
Net position (deficit), beginning of year	<u>(22,189,590)</u>	<u>321,913</u>	<u>(21,867,677)</u>
<b>Net position (deficit), end of year</b>	<u>\$ (21,060,943)</u>	<u>\$ 296,595</u>	<u>\$ (20,764,348)</u>

The accompanying notes are an integral part of these 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 was incorporated on March 15, 1861 and operates under a council-strong mayor form of government. The City directly manages and staffs treasury, city clerk, human resources, finance, executive offices, purchasing operations, and parts of DPW operations while other major functions and responsibilities of the City have been subcontracted with other government agencies or private service providers. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles, these financial statements present the City (the primary government) and its component units. The criteria established by the GASB (Governmental Accounting Standards Board) for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

#### *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 seven 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 finance department at 47450 Woodward, Pontiac, Michigan 48342.

The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City 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 finance department at 47450 Woodward, Pontiac, Michigan 48342.

#### *Fiduciary Component Units*

The following pension and other postemployment benefit plans are legally separate from the City and are included as fiduciary component units either because the City is financially accountable (GERS) or because it would be misleading to exclude the plans (PFRS and PFVEBA). Since these component units are fiduciary in nature, they are included only in the fund financial statements and are excluded from the government-wide financial statements.

The *General City Employees' Retirement System* (GERS) (the System) is a single-employer defined benefit pension plan that covers substantially all employees of the City, except police and fire employees. The system provides retirement benefits, as well as death and disability benefits.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

The *Police and Fire Retirement System* (PFRS) is a single-employer defined benefit pension plan that covers all police and fire employees of the City. PFRS provides retirement benefits, as well as death and disability benefits.

The *Police and Fire Retirement System VEBA* (PFVEBA) 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, and who retired on or after August 22, 1996.

All funds are shown for the year ended June 30, 2022, except for the fiduciary component units, which are shown for the year ended December 31, 2021.

#### **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 revenues* 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 revenues*.

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 funds, 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 taxes and amounts due from other governments will be collected after the period of availability; receivables have been recorded for these, along with an "unavailable revenue" deferred inflows of resources.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

The City reports the following major governmental funds:

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.

The *major streets special revenue 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.

The *Progress for Pontiac special revenue fund* accounts for the City's revenue and expenditures for the American Rescue Plan Act (ARPA) funds and related activities. The ARPA funds provide additional relief to address the continued impact of the COVID-19 pandemic.

The *VEBA retiree healthcare opt out special revenue fund* accounts for funding received from the general employees' retirement system to make payments to eligible retirees who choose to permanently opt out of healthcare benefits.

The City reports the following major proprietary fund:

*Parking enterprise fund.* The parking fund accounts for the activities of City-owned parking structures and lots. Funding was provided mostly through user charges in prior years. The City is currently rehabilitating the parking structure, so there were no user fees in the current year.

Additionally, the City reports the following fund types:

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

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

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

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

*Custodial funds.* The custodial funds account for assets held by the City in a custodial capacity for other governments and entities.

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 fund 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 September 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 2021 tax is levied and collectible on July 1, 2021 and is recognized as revenue in the year ended June 30, 2022, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2021 taxable valuation of the City totaled approximately \$855 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 11.0503 mills for operating purposes, 2.7624 mills for refuse collection and disposal, 1.3811 mills for capital improvement, 1.4702 for youth recreation, and .4900 mill for senior activities. This resulted in \$8.26 million for operating, \$2.07 million for refuse collection and disposal, \$1.04 million for capital improvement, \$0.56 million for youth recreation, and \$0.37 million for senior activities. These amounts are recognized in the respective general fund, special revenue funds, and capital projects fund financial statements as property 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 an original 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. Funds received related to the American Rescue Plan Act ("ARPA") are also classified as restricted assets in the Progress for Pontiac 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 acquisition cost at the date of donation.

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

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

#### *Leases*

*Lessee.* The City is a lessee for a noncancellable lease of a building. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$10,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price (if applicable) that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

*Lessor.* The City is a lessor for a noncancellable lease of land. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for prepaid lease payments received at lease inception. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

#### ***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 assets 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 its pension plans as well as for the deferred charge on refunding. A deferred refunding charge 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.

#### ***Unearned Revenue***

Unearned revenue consists of amounts received prior to the delivery of goods/services or expenditures of allowable costs.

#### ***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 and proprietary 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.

### Notes to Financial Statements

#### *Long-term Obligations*

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

#### *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 assets 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 reports deferred inflows of resources for its pension and other postemployment benefit plans. 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. The City also reports deferred inflows of resources related to leases. These amounts are deferred and amortized over the remaining life of the lease.

#### *Fund Balances*

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

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

#### *Pensions and Other Postemployment Benefits*

For purposes of measuring the net pension and other postemployment benefit assets/liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

## 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### *Construction Code Fees*

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The City accounts for construction code activity in the building inspection special revenue fund.

## 3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposits and investment balances for the primary government and the component units of as June 30, 2022:

	Primary Government	Component Units	Total
<b>Statement of net position</b>			
Cash and investments	\$ 54,615,050	\$ 490,705	\$ 55,105,755
Restricted assets	20,906,266	-	20,906,266
<b>Statement of fiduciary net position</b>			
Cash and cash equivalents	10,227,534	-	10,227,534
Investments	876,084,903	-	876,084,903
<b>Total</b>	<u>\$ 961,833,753</u>	<u>\$ 490,705</u>	<u>\$ 962,324,458</u>
Bank deposits (demand accounts and certificates of deposit due within one year)			\$ 57,628,736
Investments in securities, mutual funds and similar vehicles:			
Oakland County Local Government Investment Pool (LGIP)			17,263,379
Money markets			1,391,009
General Employees' Retirement System			598,620,632
Police and Fire Retirement System			237,732,160
Police and Fire Retirement System VEBA			49,686,042
Cash on hand			2,500
			<u>\$ 962,324,458</u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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 postemployment benefit fiduciary component units 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 and the pension and other postemployment benefit fiduciary component units' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the General Employees' Retirement System, Police and Fire Retirement System, and Police and Fire Retirement System VEBA balances as of December 31, 2021 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 \$57,751,102 of bank deposits (certificates of deposit, checking, and savings accounts) of which \$1,750,000 was covered by federal deposit insurance and \$2,047,289 was collateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*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* - The PFRS does not have a deposit policy for custodial credit risk. At year end, the PFRS had \$6,985,631 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The PFRS 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 PFRS evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Police and Fire Retirement System VEBA* - The PFVEBA maintains its cash in bank demand accounts. Cash balances are insured by the FDIC and at times may exceed federally insured limits.

## 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, 2022, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

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

*City* - The City's investment policy states that no more than 25 percent of the portfolio be invested beyond 12 months, and the weighted average maturity of the portfolio shall never exceed one year. The total portfolio, including cash, is in compliance with the City policy. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (years)
Oakland County LGIP	\$ 17,263,379	1.80

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

	Investment maturities (fair value by years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More than 10
Corporate bonds	\$ 33,407,549	\$ 2,720,227	\$ 15,963,365	\$ 6,213,840	\$ 8,510,117
Government bonds	34,685,605	8,452,806	17,421,868	4,524,943	4,285,988
Municipal and provincial bonds	31,736,573	1,734,712	21,320,088	8,681,773	-
Government agency notes	13,169,430	457,203	7,278,225	5,434,002	-
U.S. government mortgage-backed securities	17,701,813	42,728	54,039	1,505	17,603,541
Residential and other asset-backed securities	3,203,823	-	1,662,571	217,580	1,323,672
<b>Total</b>	<b>\$ 133,904,793</b>	<b>\$ 13,407,676</b>	<b>\$ 63,700,156</b>	<b>\$ 25,073,643</b>	<b>\$ 31,723,318</b>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Police and Fire Retirement System* - The PFRS's investment policy restricts the average duration of an actively managed portfolio to not differ from the benchmark duration by more than 25 percent. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (years)
U.S. government mortgage-backed securities	\$ 10,604,769	15.29
U.S. government securities	12,257,855	5.7
Corporate bonds	6,895,443	3.87

*Police and Fire Retirement System VEBA* - The PFVEBA's investment policy does not restrict investment maturities. At year end, the Trust does not have any investments with maturity dates.

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

*City* - The City has no investment policy that would further limit its investment choices. As of year end, the credit quality rating of debt securities and money market funds are as follows:

Investment	Fair Value	Rating	Rating Organization
Oakland County LGIP	\$ 17,263,379	Not rated	n/a
Money markets	1,391,009	Not rated	n/a

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*General Employees' Retirement System* - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities; the overall quality rating of each high-grade portfolio must be BBB or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 157,907	Aaa	Moody's
Corporate bonds	971,980	Aa	Moody's
Corporate bonds	14,413,212	A	Moody's
Corporate bonds	16,972,785	Baa	Moody's
Corporate bonds	891,665	Not rated	n/a
Government bonds	34,685,605	Aaa	Moody's
Municipal & provincial bonds	1,460,717	Aaa	Moody's
Municipal & provincial bonds	3,503,172	Aa	Moody's
Municipal & provincial bonds	561,505	A	Moody's
Municipal & provincial bonds	26,211,179	Not rated	n/a
Government agency notes	10,300,789	Aaa	Moody's
Government agency notes	457,203	Aa	Moody's
Government agency notes	2,411,438	Not rated	n/a
Residential and other asset-backed securities	1,651,654	Aaa	Moody's
Residential and other asset-backed securities	271,058	Aa	Moody's
Residential and other asset-backed securities	217,580	Baa	Moody's
Residential and other asset-backed securities	182,889	Caa	Moody's
Residential and other asset-backed securities	880,642	Not rated	n/a
Short-term investments	29,248,498	Not rated	n/a

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

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 730,765	AA	S&P
Corporate bonds	4,252,736	A	S&P
Corporate bonds	1,911,942	BBB	S&P

*Police and Fire Retirement System VEBA* - The PFVEBA has no investment policy that would further limit its investment choices. At December 30, 2021, the Trust does not have any investments in debt securities.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### *Concentration of Credit Risk*

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

#### *Foreign Currency Risk*

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

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

*General Employees' Retirement System* - The System restricts the amount of investments in foreign currency-denominated investments to 10 percent of total pension system investments. At December 31, 2021, the only type of investments which were subject to foreign currency risk were international equities. The System's exposure to foreign currency risk in international securities as of December 31, 2021 is summarized as follows:

Country	Currency	Fair Value
Australia	Australian dollar	\$ 539,200
Denmark	Danish krone	967,085
Europe	Euro	2,186,144
Hong Kong	Hong Kong dollar	1,369,252
Japan	Japanese yen	1,155,742
Sweden	Swedish krona	1,063,741
Switzerland	Swiss franc	2,113,894
United Kingdom	British pound	613,100
		<u>\$ 10,008,158</u>

For the year ended December 31, 2021, the System had a total foreign currency translation loss of \$42,171 related to international equities.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### *Fair Value Measurements*

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

#### **Investments in Entities that Calculate Net Asset Value per Share**

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

At the year ended June 30, 2022, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency, if Eligible</b>	<b>Redemption Notice Period</b>
Oakland County LGIP	<u>\$ 17,263,379</u>	<u>\$ -</u>	No restrictions	None

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*General Employees' Retirement System* - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2021
<b>Investments at fair value</b>				
Common stocks	\$ 280,091,838	\$ -	\$ -	\$ 280,091,838
Corporate bonds	-	33,407,549	-	33,407,549
Government bonds	-	34,685,605	-	34,685,605
Municipal and provincial bonds	-	31,736,573	-	31,736,573
Government agency notes	-	13,169,430	-	13,169,430
U.S. government mortgage-backed securities	-	17,701,813	-	17,701,813
Residential and other asset-backed securities	-	3,203,823	-	3,203,823
Short-term investments	29,248,498	-	-	29,248,498
International equities	16,700,773	-	-	16,700,773
Private equity funds	-	-	10,551,947	10,551,947
<b>Total investments at fair value</b>	<u>\$ 326,041,109</u>	<u>\$ 133,904,793</u>	<u>\$ 10,551,947</u>	<u>470,497,849</u>
<b>Investments measured at NAV</b>				
Commingled funds:				
Domestic				23,621,134
International				40,421,830
Real estate funds				61,589,876
<b>Total investments at NAV</b>				<u>125,632,840</u>
<b>Total investments</b>				<u>\$ 596,130,689</u>

The System holds shares or interests in investment assets for which the fair value of the investments is measured on a recurring basis using net asset value ("NAV") per share (or its equivalent) of the assets as a practical expedient. Investments in commingled funds consist of funds that invest primarily in domestic, international, and emerging markets publicly traded equities, as well as an investment in a limited partnership that invests in international publicly traded equities. Investments in real estate funds consist of partnerships and separate account insurance contracts that invest primarily in commercial real estate. The fair values of these investments have been estimated using the NAV per share of the System's ownership interest in partners' capital or of the investments.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

Additional information as of December 31, 2021 about the nature and risk of the System's investments that calculate NAV per share as a practical expedient is as follows:

	Net Asset Value	Redemption Frequency, if Eligible	Redemption Notice Period
Commingled funds:			
Domestic	\$ 23,621,134	Daily/monthly	10 days
International	40,421,830	Daily/monthly	10 days
Real estate funds	61,589,876	Monthly/quarterly	10-180 days
	<u>\$ 125,632,840</u>		

There are no unfunded commitments to acquire additional units of these investments as of December 31, 2021.

*Police and Fire Retirement System* - The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust had the following recurring fair value measurements as of December 31, 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2021
U.S. government securities	\$ -	\$ 12,257,855	\$ -	\$ 12,257,855
Common stocks	60,734,279	-	-	60,734,279
Corporate bonds	-	6,895,443	-	6,895,443
Mutual funds	16,132,121	-	-	16,132,121
Real estate funds	-	2,952,003	-	2,952,003
Limited partnerships	-	4,940,063	-	4,940,063
Short-term investments	4,838,232	-	-	4,838,232
U.S. government mortgage- backed securities	-	10,604,769	-	10,604,769
<b>Total investments at fair value</b>	<u>\$ 81,704,632</u>	<u>\$ 37,650,133</u>	<u>\$ -</u>	<u>119,354,765</u>
<b>Investments measured at NAV</b>				
Private equity funds				67,758,961
Real estate funds				17,276,923
Collective trust funds				10,685,684
Limited partnerships				<u>15,420,196</u>
<b>Total investments at NAV</b>				<u>111,141,764</u>
<b>Total investments</b>				<u>\$ 230,496,529</u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

Short-term investment funds, including cash and money market funds, common stocks and mutual funds are valued using Level 1 inputs at the quoted closing price reported on the active market on which the individual securities are traded.

Corporate bonds are valued using Level 2 inputs based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

U.S. Government securities and U.S. Government mortgage-backed securities are valued using Level 2 inputs based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The Trust invests in certain real estate funds and limited partnerships that are valued using Level 2 inputs based on the Retirement System's proportionate share of members' equity of the funds, which are measured at fair value at December 31, 2021.

The Trust did not have any investments valued based on Level 3 inputs.

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity funds	\$ 67,758,961	\$ -	Monthly	Up to 3 days
Real estate funds	17,276,923	672,904	Quarterly	10 days
Collective trust funds	10,685,684	-	Daily	7 days
Limited partnership funds	15,420,196	5,952,817	Quarterly	15 days
	<u>\$ 111,141,764</u>	<u>\$ 6,625,721</u>		

The private equity funds and collective trust funds includes investments in U.S. and non-U.S. publicly traded securities. The fair values of the investments in this fund have been estimated using net asset value per share of the investments.

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

The limited partnership class includes investments predominantly in private debt. The fair values of the investments in these funds have been estimated using net asset value per share of the investments.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Police and Fire Retirement System VEBA* - The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust had the following recurring fair value measurements as of December 31, 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2021
Common stocks	\$ 22,310,570	\$ -	\$ -	\$ 22,310,570
Real estate investment trusts	1,153,267	-	-	1,153,267
Mutual funds	15,396,578	-	-	15,396,578
Short-term investments	3,276,966	-	-	3,276,966
Limited partnerships	-	1,402,496	-	1,402,496
<b>Total investments at fair value</b>	<b>\$ 42,137,381</b>	<b>\$ 1,402,496</b>	<b>\$ -</b>	<b>43,539,877</b>
<b>Investments measured at NAV</b>				
Limited partnerships				5,917,808
<b>Total investments</b>				<b>\$ 49,457,685</b>

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships	\$ 5,917,808	\$ 182,930	Monthly	2 days

The limited partnership class includes investments predominantly in private debt. The fair values of the investments in these funds have been estimated using the net asset value per share of the investments.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### 4. RECEIVABLES

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

	Governmental Activities	Business-type Activities	Not Expected to be Collected Within One Year
Taxes	\$ 24,228,904	\$ -	\$ -
Accounts	2,839,109	-	-
Intergovernmental	3,319,400	-	-
Leases	1,484,401	-	1,451,899
Interest receivable	219,416	1,092	-
Less allowance for doubtful accounts	<u>(18,742,385)</u>	<u>-</u>	<u>-</u>
<b>Net receivables</b>	<u><u>\$ 13,348,845</u></u>	<u><u>\$ 1,092</u></u>	<u><u>\$ 1,451,899</u></u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance*	Additions	Disposals	Transfers	Ending Balance
<b>Governmental activities</b>					
Capital assets not being depreciated:					
Land	\$ 25,105,058	\$ -	\$ -	\$ -	\$ 25,105,058
Construction in progress	4,265,759	2,607,930	-	(3,742,308)	3,131,381
Total capital assets not being depreciated	29,370,817	2,607,930	-	(3,742,308)	28,236,439
Capital assets being depreciated/amortized:					
Streets and bridges	316,898,302	2,140,233	-	2,049,763	321,088,298
Buildings and improvements	40,805,767	-	-	1,692,545	42,498,312
Machinery and equipment	1,594,219	-	(305,104)	-	1,289,115
Vehicles	1,044,566	-	-	-	1,044,566
Land improvements	374,952	-	-	-	374,952
Leased building	123,542	-	-	-	123,542
Total capital assets being depreciated/amortized	360,841,348	2,140,233	(305,104)	3,742,308	366,418,785
Less accumulated depreciation/ amortization for:					
Streets and bridges	(252,331,353)	(5,738,387)	-	-	(258,069,740)
Buildings and improvements	(40,204,683)	(205,306)	-	-	(40,409,989)
Machinery and equipment	(770,953)	(138,729)	238,833	-	(670,849)
Vehicles	(873,752)	(71,919)	-	-	(945,671)
Land improvements	(224,761)	(17,560)	-	-	(242,321)
Leased building	-	(61,771)	-	-	(61,771)
Total accumulated depreciation/ amortization	(294,405,502)	(6,233,672)	238,833	-	(300,400,341)
Total capital assets being depreciated/ amortized, net	66,435,846	(4,093,439)	(66,271)	3,742,308	66,018,444
<b>Governmental activities capital assets, net</b>	<u>\$ 95,806,663</u>	<u>\$ (1,485,509)</u>	<u>\$ (66,271)</u>	<u>\$ -</u>	<u>\$ 94,254,883</u>

\* The City implemented the provisions of GASB Statement No. 87, *Leases*, in the current year. In accordance with this Statement, leased assets have been added to the beginning balances shown above and a corresponding lease payable has been recorded for the same amount.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Business-type activities</b>				
<b>Parking fund</b>				
Capital assets not being depreciated:				
Land	\$ 3,042,537	\$ -	\$ -	\$ 3,042,537
Construction in progress	664,015	24,112	-	688,127
Total capital assets not being depreciated	3,706,552	24,112	-	3,730,664
Capital assets being depreciated:				
Buildings and improvements	33,573,313	81,454	-	33,654,767
Traffic signs	57,182	-	-	57,182
Total capital assets being depreciated	33,630,495	81,454	-	33,711,949
Less accumulated depreciation for:				
Buildings and improvements	(28,452,816)	(564,861)	-	(29,017,677)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(28,509,998)	(564,861)	-	(29,074,859)
Total capital assets being depreciated, net	5,120,497	(483,407)	-	4,637,090
<b>Parking fund capital assets, net</b>	<u>\$ 8,827,049</u>	<u>\$ (459,295)</u>	<u>\$ -</u>	<u>\$ 8,367,754</u>

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

### Depreciation/amortization of governmental activities

General government	\$ 353,517
Public safety	5,115
Public works	5,869,540
Community and human services	5,500

**Total depreciation/amortization expense** \$ 6,233,672

### Depreciation of business-type activities

Parking	<u>\$ 564,861</u>
---------	-------------------

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

	Spent to Date	Remaining Commitment
Governmental activities	\$ 1,762,680	\$ 1,866,709
Business-type activities	-	170,502
	<u>\$ 1,762,680</u>	<u>\$ 2,037,211</u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### 6. LEASES

**Lessee** - The City is involved in one agreement as a lessee that qualifies as a long-term lease agreement. Below is a summary of the nature of this agreement. This agreement qualifies as an intangible, right-to-use asset and not a financed purchase, as the City will not own the asset at the end of the contract term and the noncancelable term of the agreement surpasses one year.

	Remaining Term of Agreements
<b>Asset Type</b>	
Building	1 year

The assets acquired through the lease are summarized as follows:

Building	\$ 123,542
Less accumulated amortization	(61,771)
<b>Net book value</b>	<u>\$ 61,771</u>

The net present value of future minimum payments as of June 30, 2022, were as follows:

Year Ended June 30,	Principal	Interest
2023	<u>\$ 57,278</u>	<u>\$ 1,055</u>

Lease liability activity for the year ended June 30, 2022, was as follows:

Beginning Balance *	Additions	Deductions	Ending Balance	Due Within One Year
------------------------	-----------	------------	-------------------	------------------------

#### Governmental activities

Leases payable	<u>\$ 123,542</u>	<u>\$ -</u>	<u>\$ (66,264)</u>	<u>\$ 57,278</u>	<u>\$ 57,278</u>
----------------	-------------------	-------------	--------------------	------------------	------------------

\* The City implemented the provisions of GASB Statement No. 87, *Leases*, in the current year. In accordance with this Statement, leases payable have been added to the beginning balances shown above and a corresponding lease asset has been recorded for the same amount.

**Lessor** - The City is involved in an agreement as a lessor that qualifies as a long-term lease agreement. Below is a summary of this agreement. This agreement qualifies as long-term lease agreement as the City will not surrender control of the asset at the end of the term and the noncancelable term of the agreement surpasses one year. Total lease revenue for the year ended June 30, 2022 was \$36,359.

	Remaining Term of Agreements
<b>Asset Type</b>	
Land	28 years

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

Lease receivable activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Governmental activities</b>				
Leases receivable	\$ 1,515,707	\$ -	\$ (31,306)	\$ 1,484,401

### 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2022, the composition of interfund balances is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 3,961,050	\$ 568,005
Major streets fund	402,742	-
Nonmajor governmental funds	568,005	402,742
Internal service funds	-	3,961,050
	<u>\$ 4,931,797</u>	<u>\$ 4,931,797</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, 2022, interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers in	Transfers out
General fund	\$ 16,056	\$ 1,927,667
Nonmajor governmental funds	1,933,006	21,395
	<u>\$ 1,949,062</u>	<u>\$ 1,949,062</u>

During the fiscal year, transfers were used to: (1) move funds to the district court fund for the subsidy of operations, and (2) transfer parking fine collections.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 8. LONG-TERM DEBT

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Other long-term obligations:					
2007C TIFA Bond					
Financial Guarantee	\$ 2,233,275	\$ -	\$ (741,416)	\$ 1,491,859	\$ 789,211
Compensated absences	376,536	413,226	(253,224)	536,538	416,333
Landfill closure and postclosure costs	2,141,591	184,063	-	2,325,654	-
Ottawa Towers settlement	5,600,000	330,400	(294,233)	5,636,167	663,700
<b>Total governmental activities</b>	<b>\$ 10,351,402</b>	<b>\$ 927,689</b>	<b>\$ (1,288,873)</b>	<b>\$ 9,990,218</b>	<b>\$ 1,869,244</b>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component units</b>					
Direct borrowings and direct placements:					
\$31,080,000 2007 C TIFA	\$ 16,910,000	\$ -	\$ (1,860,000)	\$ 15,050,000	\$ 1,985,000
Other long-term obligation - Financial guarantee	5,830,457	696,012	-	6,526,469	-
<b>Total component units</b>	<b>\$ 22,740,457</b>	<b>\$ 696,012</b>	<b>\$ (1,860,000)</b>	<b>\$ 21,576,469</b>	<b>\$ 1,985,000</b>

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

Year Ended June 30,	Governmental Activities		Component Units	
	Other Long-term Obligations (Financial Guarantee and Ottawa Towers Settlement)		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2023	\$ 1,452,911	\$ 314,777	\$ 1,985,000	\$ 703,700
2024	1,081,115	274,542	1,715,000	604,450
2025	867,801	231,868	1,520,000	522,988
2026	900,632	186,608	1,630,000	450,788
2027	935,384	138,603	1,745,000	373,363
2028-2031	1,890,183	57,533	6,455,000	733,950
	<b>\$ 7,128,026</b>	<b>\$ 1,203,931</b>	<b>\$ 15,050,000</b>	<b>\$ 3,389,239</b>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

Compensated absences and separation accruals in governmental activities of \$536,538 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 \$2,325,654 has no fixed maturity dates; therefore, it has been excluded from the above summary.

The compensated absences liability attributable to the governmental activities is recorded in the employee sick and vacation internal service fund. The landfill closure and postclosure costs represent the cumulative amount of closure and postclosure are costs reported to date based on the use of 100 percent of the estimated capacity of the landfill. The City has established a sick and vacation internal service fund for the liquidation of the compensated absences liability. The sanitation fund would be used to liquidate the landfill closure and post closure costs.

#### *Financial Guarantee*

In 2007, the City guaranteed the 10-year, \$1.315 million TIFA 2 2007C series, the 17-year, \$3.28 million TIFA 2 2007C series, and the 24-year, \$24.45 million TIFA 3 2007C series revenue bond issuances of the Tax Increment Finance Authority (TIFA), a legally separate authority located within the City, in accordance with a resolution adopted by the City. The bonds mature annually through May 1, 2017, May 1, 2024 and May 1, 2031, respectively, with semiannual interest payments. In the event that the TIFA is unable to make a payment, the City is required to make that payment. As a result of declining revenues that occurred in 2014 and prior, the City determined in fiscal year 2014 that it was more likely than not that the City would be required to pay a percentage of the remaining portion of the TIFA's debt service payments based on this guarantee. During fiscal year 2022, total TIFA debt service amounted to \$2,656,701 of which \$696,012 was paid by the City and \$1,960,689 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 \$6,526,469 at June 30, 2022. This liability has been recorded as a long-term liability in the combining statement of net position for the discretely presented component units as funds to reimburse the general fund are not expected to be available until all TIFA debt service has been paid in full.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### *Phoenix Center and Ottawa Towers*

In November 2018, the City settled litigation with Ottawa Towers regarding demolition of the Phoenix Center Parking Garage. The settlement required the City retain ownership of the Phoenix Center and perform \$6 million of repairs on the Phoenix Center over a period of ten years from the time of settlement. Additionally, the City was required to pay annual installments of \$700,000 to Ottawa Towers through November 2022. The City entered into an agreement in November 2020 to satisfy the requirements of the November 2018 settlement.

The public/private purchase agreement states the Ottawa Towers property would be purchased by a developer and the City would retain ownership of the Phoenix Center Parking garage. The final settlement amount due to the owner of Ottawa Towers was \$19,200,000. The private developer paid \$6,600,000 for the purchase of the Towers, and the City paid a total of \$12.6 million, which consisted of \$7,000,000 in cash and a promissory note for \$5.6 million. The final purchase was executed in January 2021. As a result of the new agreement, the remaining \$1.4 million of settlement payments from the original settlement were forgiven, and the City obtained a promissory note in the amount of \$5.6 million, which is reflected in long-term debt in the current year. The details of the purchase, sale, and related financing of the Ottawa Towers and Phoenix Center Garage agreement are outlined below.

The promissory note between the City and the seller of Ottawa Towers was entered into in February 2021 for the principal sum of \$5,600,000. The principal balance of the Note shall bear an annual interest rate of 5.90% per year while not in default. The Note is secured by an irrevocable, standby, sight-draft letter of credit, issued by PNC Bank, an FDIC insured bank, in the face amount of \$5,600,000, naming the payee as beneficiary. The City and payee anticipate the letter of credit amount will increase on the one-year anniversary of this Note to account for the planned accrual of the first year's interest.

Interest accrued on the principal balance until the first anniversary of this Note, at which time all then accrued interest of \$330,400 was added to the principal balance of the Note bringing the principal balance at February 4, 2022 to \$5,930,400. On February 4, 2022, and on the 4th day of the month thereafter, principal and interest payments shall be due and payable in equal monthly installments over seven years in the amount of \$81,540 until January 4, 2028 on which date the entire unpaid principal balance together and all accrued interest, if not paid sooner, and all other indebtedness shall become due and payable in full.

Under the agreement, the City and a developer entered a Public-Private-Partnership (PPP) Agreement for the Phoenix Center. The Developer gains exclusive use of the parking structure to support the commercial demands of the Phoenix Center parking garage, but also allows for shared parking for the Property and for the Phoenix Plaza/Amphitheater when restored and opened for use. The developer agreed to make all necessary repairs to the Phoenix Center garage in exchange for the grant of perpetual access to and use all of the parking areas in the Phoenix Center. The terms of the PPP that grant access and control of the parking areas is contained in a 50-year term Master Agreement with five 10-year options to extend said agreement, at a rental rate of \$1.00 per year. The City maintains exclusive control of the roof and plaza of the Phoenix Center and shall at its own expense maintain, repair and exercise control of the roof and plaza of the Phoenix Center roof and its access elements. Any final development plan for the Property shall include input from the City, its Council and officials.

# 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 -	
ARPA funds	\$ 18,858,977
Landfill closure and postclosure costs	<u>2,047,289</u>
	<u>\$ 20,906,266</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 \$2,325,654 reported as landfill closure and postclosure liability at June 30, 2022 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 Environment, Great Lakes and Energy 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, 2022. 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, 2022, investments and deposits held in trust of \$2,047,289 are held for these purposes. These are reported as restricted assets on the balance sheet. The total fund balance in the sanitation special revenue fund has been restricted as well. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by future tax revenue.

### 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.

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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

For medical, dental and workers' compensation, the City was fully insured in the last three fiscal years. However, for prior years in which the City was not fully insured, a liability is estimated for workers' compensation claims that have been reported as well as those that have not yet been reported. As of June 30, 2022, 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 follows:

	General Liability		Workers' Compensation	
	2022	2021	2022	2021
<b>Unpaid claims -</b>				
Beginning of year	\$ 497,356	\$ 449,743	\$ 335,075	\$ 292,527
Incurred claims (adjustments)	(287,336)	169,205	8,625	260,811
Claim payments	(91,955)	(121,592)	(83,327)	(218,263)
<b>Unpaid claims -</b>				
End of year	<u>\$ 118,065</u>	<u>\$ 497,356</u>	<u>\$ 260,373</u>	<u>\$ 335,075</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.

*Establishment of New Plans.* In March 2021, the Internal Revenue Service ("IRS") approved the City's request to terminate the existing System, to establish a new plan, the City of Pontiac Reestablished General Employees' Retirement System (the "Reestablished System"), which will be 130 percent funded, and to transfer the excess assets to a newly created voluntary employees' beneficiary association ("VEBA"), the City of Pontiac VEBA Trust (the "VEBA Trust"), to provide funding for retiree health care. The Reestablished System will continue to provide the same level of benefits as the existing System. Transfers were made to the Reestablished System and the VEBA Trust in the first quarter of 2022, in compliance with the terms of the settlement agreement.

*Method Used to Value Investments.* Investments held by the System are reported at estimated fair value. Short-term investments are reported at cost, which approximates fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market value are reported at estimated fair value, as determined by the System's management. These estimates are determined using audited financial statements issued by the private equity companies or limited partnerships in which such investments are held, adjusted by management as deemed appropriate based on known circumstances.

There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

**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, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**Contributions.** Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the board of trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2021, the active members were not required to contribute to the System. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not have to make a contribution to the System in the current year. Administrative costs are financed through investment earnings.

**Employees Covered by Benefit Terms.** At December 31, 2021, System membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	1,035
Inactive employees entitled to but not yet receiving benefits	97
Active employees	<u>26</u>
<b>Total membership</b>	<u><u>1,158</u></u>

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

**Reserves.** In accordance with state law, the City establishes reserves for various purposes. The balance of the reserve accounts at December 31, 2021 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 260,261,565
Employee reserve	151,851

**Net Pension Asset.** The City's net pension asset was measured as of December 31, 2021.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2021. The valuation used the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.00%
Salary increases	3.6 - 7.4%, average, including wage inflation of 2.5%
Investment rate of return	6.0%, net of pension plan investment expenses, including inflation

Mortality assumptions were as follows:

Actives: The Pub-2010 Amount-weighted, General, Employee, Male and Female Tables, with future mortality improvements projected generationally to 2030 using scale MP-2019.

Healthy retirees: The Pub-2010 Amount-weighted, General, Healthy Retiree, Male and Female Tables, with future mortality improvements projected generationally to 2030 using scale MP-2019 with male and female rates scaled by 95 percent.

Disabled retirees: The Pub-2010 Amount-weighted, General, Disabled Retiree, Male and Female Tables, with future mortality improvements projected generationally to 2030 using scale MP-2019.

*Long-term Expected Rate of Return.* 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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - All Cap	14.00%	9.13%
Domestic equity - Large Cap	10.00%	9.15%
Domestic equity - Mid Cap	15.00%	10.64%
Domestic equity - Small Cap	11.00%	8.97%
International equity	5.00%	6.57%
Emerging markets equity	5.00%	11.82%
Fixed income - Core	25.00%	2.18%
Real estate	10.00%	6.80%
Private equity	5.00%	13.06%
	<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the City's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rates. 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Asset (a) - (b)</b>
Balances at December 31, 2020	\$ 287,096,992	\$ 549,899,376	\$ (262,802,384)
Changes for the year:			
Service cost	251,497	-	251,497
Interest	16,433,760	-	16,433,760
Differences between expected and actual experience	(6,037,890)	-	(6,037,890)
Benefit payments, including refunds of employee contributions	(26,890,294)	(26,890,294)	-
Net investment income	-	84,736,747	(84,736,747)
Administrative expense	-	(799,944)	799,944
Transfers to City of Pontiac	-	(8,000,000)	8,000,000
Miscellaneous other charges/revenue	-	41,963	(41,963)
Net changes	(16,242,927)	49,088,472	(65,331,399)
<b>Balances at December 31, 2021</b>	<b>\$ 270,854,065</b>	<b>\$ 598,987,848</b>	<b>\$ (328,133,783)</b>

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net pension asset of the City, calculated using the discount rate of 6.0%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1% lower (5.0%) or 1% higher (7.0%) than the current rate:

	<b>1% Decrease (5.0%)</b>	<b>Current Discount Rate (6.0%)</b>	<b>1% Increase (7.0%)</b>
City's net pension asset	\$ (300,840,375)	\$ (328,133,783)	\$ (351,032,476)

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

*Pension Expense and Deferred Inflows of Resources Related to Pensions.* For the year ended June 30, 2022, the City recognized pension expense of (\$36,621,534). At June 30, 2022, the City reported deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ (375,985)
Net difference between projected and actual earnings on pension plan investments	(71,308,620)
<b>Total</b>	<b>\$ (71,684,605)</b>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

Year Ended June 30,	Amount
2023	\$ (16,616,882)
2024	(27,995,894)
2025	(16,557,131)
2026	<u>(10,514,698)</u>
Total	<u>\$ (71,684,605)</u>

#### 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, for purposes of computing the actuarial determined contribution to the System from the City, the actuary is expressing the amount as a level dollar amount amortized on a closed basis, rather than as a level percent of payroll.

*Method Used to Value Investments.* Investments are reported at estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Securities not traded on a national or international exchange are based upon quoted prices for comparable instruments with similar yields and risk in active and inactive markets. Investments that do not have an established market value are valued at net asset value (NAV) as a practical expedient to estimate fair value.

*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 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, 2021, the annual money-weighted rate of return, net of expenses on the Retirement System's investments, was 16.35%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

*Contributions.* State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Retirement System hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to make pension contributions based on the city ordinance, union contracts, and plan provisions; however, given that the plan is now closed, there are no longer any active members of the plan. The Retirement System's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2021, the City's required contribution was \$2,248,844 and actual contributions were \$4,745,450. There were no contributions due from members during fiscal year 2021.

*Employees Covered by Benefit Terms.* At December 31, 2021, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	430
Inactive employees entitled to but not yet receiving benefits	114
<b>Total membership</b>	<b>544</b>

*Reserves.* As of December 31, 2021, the Plan's legally required reserves have been fully funded as follows:

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

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

The balances of the reserve accounts (required and actual reserves) at December 31, 2021 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 246,905,871	\$ 236,708,613
Employee reserve	1,123,397	1,123,397

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2021.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2021. 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	7.25%, net of pension plan investment expense, including inflation
Cost of living adjustments	2.0%, per year up to 25 years

As the plan is not large enough to have credible experience, the actuary has set the mortality assumptions to reflect general population trends. For healthy annuitants, the plan has utilized the Pub-S 2010 Mortality Table with generational improvements using scale MP-2021. For disabled annuitants, the plan is using the Pub-S 2010 Disabled Mortality with generational improvements using scale MP-2021.

*Long-term Expected Rate of Return.* 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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	45.00%	7.50%
International equity	12.00%	8.50%
Domestic bonds	18.00%	2.50%
International bonds	5.00%	3.50%
Real estate	10.00%	4.50%
Other assets	10.00%	6.08%
	<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that City's contributions will be made at actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and deferred employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at December 31, 2020	\$ 244,097,813	\$ 221,221,590	\$ 22,876,223
Changes for the year:			
Interest	17,521,865	-	17,521,865
Differences between expected and actual experience	281,827	-	281,827
Employer contributions	-	4,745,450	(4,745,450)
Changes of assumptions	5,950,258	-	5,950,258
Benefit payments, including refunds of employee contributions	(20,945,892)	(20,945,892)	-
Net investment income	-	33,115,699	(33,115,699)
Administrative expense	-	(306,187)	306,187
Other	-	1,350	(1,350)
Net changes	2,808,058	16,610,420	(13,802,362)
<b>Balances at December 31, 2021</b>	<b>\$ 246,905,871</b>	<b>\$ 237,832,010</b>	<b>\$ 9,073,861</b>

*Changes in Assumptions.* The mortality improvement scale has been updated from the MP-2020 fully generational scale to the MP-2021 fully generational scale.

*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 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
City's net pension liability	\$ 34,166,120	\$ 9,073,861	\$ (12,042,019)

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended June 30, 2022, the City recognized pension expense of \$(2,560,024). At June 30, 2022, 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	\$ -	\$ 18,547,811	\$ (18,547,811)
Contributions subsequent to measurement date	2,496,606	-	2,496,606
<b>Total</b>	<u>\$ 2,496,606</u>	<u>\$ 18,547,811</u>	<u>\$ (16,051,205)</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2023. Other 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 June 30,	Amount
2023	\$ (3,077,703)
2024	(7,845,827)
2025	(4,195,677)
2026	<u>(3,428,604)</u>
<b>Total</b>	<u>\$ (18,547,811)</u>

For the governmental activities, the net pension liability is generally liquidated by the general fund.

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

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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

The City's total payroll during the current year was \$5,734,384. The current year contribution was calculated based on covered payroll of \$2,761,686, resulting in employer contributions of \$87,552 and employee contributions of \$165,162. As of June 30, 2022, there were 49 plan participants in the City's Michigan Employee MERS defined contribution plan, and one employee participating in the City's 401A defined contribution plan.

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

### 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, and their spouses and qualified dependents. 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.

On April 4, 2017, the City of Pontiac, Michigan announced that a tentative settlement had been reached with regard to retiree health care. In October 2018, the federal judge in the case approved the tentative settlement. The settlement agreement, once approved by various parties, including the Michigan Association of Public Employees (MAPE) and the Internal Revenue Service (IRS), among others, would provide retiree health care benefits to all eligible City of Pontiac, Michigan retirees via the creation of a new VEBA. This new VEBA will be funded by utilizing certain overfunded assets from the City of Pontiac General Employees' Retirement System and this Trust. In March 2021, the IRS issued a favorable determination. The Trust and related entities are pursuing efforts to transfer assets, with appropriate IRS approval. As of December 31, 2021, no assets have been transferred to the new VEBA.

*Method Used to Value Investments.* Investments are reported at estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sale price at current exchange rates. Securities not traded on a national or international exchange are based upon quoted prices for comparable instruments with similar yields and risk in active and inactive markets. Investments that do not have an established market value are valued at net asset value (NAV) as a practical expedient to estimate fair value.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Investment Policy.* The Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trust's board by a majority vote of its members. It is the policy of the Trust's 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 Trust'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, 2021, the annual money-weighted rate of return on OPEB plan investments was 16.77%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Benefits Provided.* The Trust provides 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 retired on or after August 22, 1996. During 2013, the board of trustees passed a resolution to expand membership to retirees who retired prior to August 22, 1996. The pre-August 22, 1996 retirees were covered by the Trust effective September 1, 2013 through April 1, 2014. All such benefits are paid out of the Trust.

*Contributions.* Certain retirees are required to contribute toward the premiums paid on their behalf. Retiree contributions for the year ended December 31, 2021 were \$397,128. No employer contribution revenue was recorded in the current year.

*Employees Covered by Benefit Terms.* At December 31, 2021, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	250
Inactive employees entitled to but not yet receiving benefits	144
<b>Total membership</b>	<b>394</b>

*Net OPEB Liability (Asset).* The City's net OPEB liability (asset) was measured as of December 31, 2021.

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, which used update procedures to roll forward the estimated liability to December 30, 2021. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Healthcare cost trend rate	7.50% decreasing 0.5% per year to an ultimate rate of 4.50% for 2028 and later years
Mortality	General retirees and deferred vested employees: SOA Pub-2010 Headcount-weighted Public Safety Mortality Table fully generational using Scale MP-2021 Disabled retirees: SOA Pub-2010 Headcount-weighted Disabled Public Safety Mortality Table fully generational using Scale MP-2021 Surviving spouses: SOA Pub-2010 Headcount-weighted Contingent Survivor Mortality Table fully generational using Scale MP-2021
Investment rate of return	6.50% net of OPEB plan investment expense, including inflation

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Long-term Expected Rate of Return.* The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major 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. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	52.50%	5.60%
International equity	12.50%	9.20%
Domestic bonds	15.00%	3.10%
International bonds	5.00%	2.50%
Alternative assets	15.00%	5.51%
	<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total OPEB liability at December 31, 2021 was 6.50%.

Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Changes in the Net OPEB Liability (Asset).* The components of the change in the net OPEB liability (asset) are summarized as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at December 31, 2020	\$ 30,765,238	\$ 44,057,510	\$ (13,292,272)
Changes for the year:			
Interest	2,188,092	-	2,188,092
Differences between expected and actual experience	10,889,799	-	10,889,799
Changes of assumptions	7,242,518	-	7,242,518
Benefit payments, including refunds of employee contributions	(3,239,940)	(3,239,940)	-
Net investment income	-	7,043,169	(7,043,169)
Administrative expense	-	(94,449)	94,449
Other	-	15,628	(15,628)
Net changes	<u>17,080,469</u>	<u>3,724,408</u>	<u>13,356,061</u>
<b>Balances at December 31, 2021</b>	<u>\$ 47,845,707</u>	<u>\$ 47,781,918</u>	<u>\$ 63,789</u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Changes in Assumptions.* The discount rate was adjusted from 7.5% to 6.5%. Additionally, the mortality table was updated from the SOA Pub-2010 Headcount-weighted tables fully generational using Scale MP-2019 to various SOA Pub-2010 Mortality tables fully generational using Scale MP-2021. Finally, healthcare trend rates have been updated to an initial rate of 7.5% decreasing by 0.5% annually to an ultimate rate of 4.5% for pre-65 retirees, and reset to an initial rate of 6.5% decreasing by 0.5% annually to an ultimate rate of 4.5% for post-65 retirees.

*Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate.* The following presents the net OPEB liability (asset) of the City, calculated using the discount rate of 6.5%, as well as what the City's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower (5.5%) or 1% higher (7.5%) than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
City's net OPEB liability (asset)	\$ 5,223,485	\$ 63,789	\$ (5,020,726)

*Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend.* The following presents the net OPEB liability (asset) of the City, calculated using the healthcare cost trend rate of 7.5%, as well as what the City's net OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
City's net OPEB liability (asset)	\$ (4,911,419)	\$ 63,789	\$ 5,000,480

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

*OPEB Expense and Deferred Inflows of Resources Related to OPEB.* For the year ended June 30, 2022, the City recognized OPEB expense of \$16,629,072. At June 30, 2022, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ (3,277,658)</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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

Year Ended June 30,	Amount
2023	\$ (265,092)
2024	(1,456,102)
2025	(780,560)
2026	<u>(775,904)</u>
<b>Total</b>	<b><u>\$ (3,277,658)</u></b>

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

*Plan Description and Benefits Provided.* 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.

*Contributions.* 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).

*Employees Covered by Benefit Terms.* At December 31, 2020, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	722
Inactive employees entitled to but not yet receiving benefits	<u>10</u>
<b>Total membership</b>	<b><u>732</u></b>

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, and rolled forward to the measurement date of June 30, 2022. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Healthcare cost trend rate	7.00% decreasing 0.50% per year to an ultimate rate of 4.50% for 2028 and later years
Mortality	Healthy general retirees: SOA Pub.H-2010 General Mortality Table fully generational using Scale MP-2020 Healthy police and fire retirees: SOA Pub.H-2010 Public Safety Mortality Table fully generational using Scale MP-2020 Disabled general retirees: SOA Pub.H-2010 Disabled General Mortality Table fully generational using Scale MP-2020 Disabled police and fire retirees: SOA Pub.H-2010 Disabled Public Safety Mortality Table fully generational using Scale MP-2020 Beneficiaries: SOA Pub.H-2010 Contingent Survivor Mortality Table fully generational using Scale MP-2020

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

**Discount Rate.** Because the OPEB plan does not have a dedicated trust, there are no assets projected to make projected future benefit payments. Therefore, the discount rate incorporates a municipal bond rate which was 2.25% at June 30, 2022. The source of that bond rate was the Bond Buyer GO 20-Bond Municipal Bond Index.

**Changes in the Total OPEB Liability.** The components of the change in the total OPEB liability are summarized as follows:

	Total OPEB Liability
Balances at December 31, 2020	\$ 55,708,030
Changes for the year:	
Interest	1,148,076
Differences between expected and actual experience	8,259,187
Changes of assumptions	4,611,723
Benefit payments, including refunds of employee contributions	(3,123,412)
Net changes	10,895,574
Balances at December 31, 2021	\$ 66,603,604

**Changes in Assumptions.** The discount rate was adjusted from 2.12% to 2.25%. Additionally, healthcare trend rates have been updated to an initial rate of 7.0% decreasing by 0.5% annually to an ultimate rate of 4.5% for pre-65 retirees, and reset to an initial rate of 6.25% decreasing by 0.5% annually to an ultimate rate of 4.5% for post-65 retirees.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.** The following presents the total OPEB liability of the City, calculated using the discount rate of 2.25%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.25%) or 1% higher (3.25%) than the current rate:

	1% Decrease (1.25%)	Current Discount Rate (2.25%)	1% Increase (3.25%)
City's total OPEB liability	\$ 77,006,599	\$ 66,603,604	\$ 58,387,973

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend.** The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.0% Decreasing to 3.5%)	Healthcare Cost Trend Rate (7.0% Decreasing to 4.5%)	1% Increase (8.0% Decreasing to 5.5%)
City's total OPEB liability	\$ 57,485,297	\$ 66,603,604	\$ 77,939,067

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*OPEB Expense.* For the year ended June 30, 2022, the City recognized OPEB expense of \$14,018,986.

For the governmental activities, the total OPEB liability is generally liquidated by the general fund.

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

	Plan Net Position as of December 31, 2021			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 2,489,943	\$ 7,235,631	\$ 228,357	\$ 9,953,931
Investments at fair value or net asset value:				
U.S. government securities	-	12,257,855	-	12,257,855
Common stocks	280,091,838	60,734,279	22,310,570	363,136,687
Corporate bonds	33,407,549	6,895,443	-	40,302,992
Mutual funds	-	16,132,121	15,396,578	31,528,699
Government bonds	34,685,605	-	-	34,685,605
Municipal and provincial bonds	31,736,573	-	-	31,736,573
Government agency notes	13,169,430	-	-	13,169,430
U.S. government mortgage-backed securities	17,701,813	10,604,769	-	28,306,582
Residential and other asset-backed securities	3,203,823	-	-	3,203,823
Short-term investments	29,248,498	4,838,232	3,276,966	37,363,696
International equities	16,700,773	-	-	16,700,773
Private equity funds	10,551,947	67,758,961	-	78,310,908
Commingled funds:				
Domestic	23,621,134	-	-	23,621,134
International	40,421,830	-	-	40,421,830
Real estate funds	61,589,876	20,228,926	1,153,267	82,972,069
Collective trust funds	-	10,685,684	-	10,685,684
Limited partnerships	-	20,360,259	7,320,304	27,680,563
Accrued interest receivable	1,010,419	192,445	36,523	1,239,387
Other receivables	57,519	167,942	-	225,461
Due from Police and Fire Retirement System VEBA	84,503	-	-	84,503
<b>Total assets</b>	<b>599,773,073</b>	<b>238,092,547</b>	<b>49,722,565</b>	<b>887,588,185</b>
<b>Liabilities</b>				
Accounts payable and other	785,225	260,537	30,622	1,076,384
Due to City of Pontiac	-	-	1,825,522	1,825,522
Due to City of Pontiac Police and Fire Retirement System	-	-	84,503	84,503
<b>Total liabilities</b>	<b>785,225</b>	<b>260,537</b>	<b>1,940,647</b>	<b>2,986,409</b>
<b>Net position restricted for pension and other employee benefits</b>	<b>\$ 598,987,848</b>	<b>\$ 237,832,010</b>	<b>\$ 47,781,918</b>	<b>\$ 884,601,776</b>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

Changes in Plan Net Position for the Year Ended				
December 31, 2021				
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
<b>Additions</b>				
Investment income:				
Net appreciation in fair value of investments	\$ 81,034,133	\$ 29,473,668	\$ 6,078,566	\$ 116,586,367
Interest and dividends	7,008,155	4,474,260	1,098,370	12,580,785
Less investment related expenses	(3,305,541)	(832,229)	(133,767)	(4,271,537)
Net investment income	84,736,747	33,115,699	7,043,169	124,895,615
Contributions - employer	-	4,745,450	-	4,745,450
Miscellaneous and litigation revenue	41,963	1,350	15,628	58,941
<b>Total additions</b>	<b>84,778,710</b>	<b>37,862,499</b>	<b>7,058,797</b>	<b>129,700,006</b>
<b>Deductions</b>				
Participant benefit payments	26,890,294	20,945,892	3,239,940	51,076,126
Administrative expenses	799,944	306,187	94,449	1,200,580
Transfers to City	8,000,000	-	-	8,000,000
<b>Total deductions</b>	<b>35,690,238</b>	<b>21,252,079</b>	<b>3,334,389</b>	<b>60,276,706</b>
<b>Change in net position</b>	<b>49,088,472</b>	<b>16,610,420</b>	<b>3,724,408</b>	<b>69,423,300</b>
Net position:				
Beginning of year	549,899,376	221,221,590	44,057,510	815,178,476
<b>End of year</b>	<b>\$ 598,987,848</b>	<b>\$ 237,832,010</b>	<b>\$ 47,781,918</b>	<b>\$ 884,601,776</b>

## 18. CONTINGENT LIABILITIES

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

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

**Retired Employees Association vs. City of Pontiac.** On April 4, 2017, the City of Pontiac, Michigan announced that a tentative settlement had been reached regarding retiree health care. In October 2018, the federal judge in the case approved the tentative settlement. In 2022, the IRS informed the parties that the IRS does not provide the type of approval that the settlement language required. The parties are now working to remove that language. It is anticipated that updated language will be in place before June 30, 2023.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

The VEBA did receive funding in 2022 and began providing service to retirees. It is anticipated that by June of 2023, the Police and Fire VEBA will be merged with the VEBA.

#### 19. TAX ABATEMENTS

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

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to \$122,380 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$21,911 in reduced City tax revenues for the year.

The City also has entered into agreements under the State Housing Development Authority Act, PA 346 of 1966. Under this act, a municipality may allow a payment of a service charge in lieu of taxes to provide housing to elderly persons of low to moderate income. The abatements amounted to \$678,100 in reduced City tax revenues for the year.

Finally, the City entered into agreements under the New Personal Property Tax Exemption Act, PA 328 of 1998, as amended. This act affords a 100% property tax exemption for specific businesses located within eligible distressed communities. The abatements amounted to \$1,776,770 in reduced City tax revenues for the year.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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	VEBA Retiree Healthcare Opt Out	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Prepaid items	\$ 59,008	\$ 15,077	\$ -	\$ 30,575	\$ 104,660
<b>Restricted</b>					
Roads	-	6,623,636	-	1,860,768	8,484,404
Healthcare payouts	-	-	4,000,000	-	4,000,000
Drug enforcement	-	-	-	167,508	167,508
Capital projects	-	-	-	3,763,668	3,763,668
Sanitation	-	-	-	6,920,969	6,920,969
Senior activities	-	-	-	894,151	894,151
Community development	-	-	-	30,335	30,335
Home buyers assistance	-	-	-	23,638	23,638
Cable television	-	-	-	1,094,012	1,094,012
Youth recreation	-	-	-	918,613	918,613
Telecommunications	-	-	-	23,222	23,222
Building inspection	-	-	-	4,174,365	4,174,365
<b>Total restricted</b>	-	6,623,636	4,000,000	19,871,249	30,494,885
<b>Committed</b>					
Youth recreation	3,200,000	-	-	-	3,200,000
District court	-	-	-	455,774	455,774
Skatepark	-	-	-	55,000	55,000
<b>Total committed</b>	3,200,000	-	-	510,774	3,710,774
<b>Assigned</b>					
Ottawa Towers settlement settlement	5,636,167	-	-	-	5,636,167
<b>Unassigned</b>	14,615,617	-	-	-	14,615,617
<b>Total fund balances</b>	\$ 23,510,792	\$ 6,638,713	\$ 4,000,000	\$ 20,412,598	\$ 54,562,103

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 21. NET INVESTMENT IN CAPITAL ASSETS

Following is a summary of the City's net investment in capital assets as presented in the government-wide statement of net position:

	Governmental Activities	Business-type Activities	Total
Capital assets:			
Capital assets not being depreciated	\$ 28,236,439	\$ 3,730,664	\$ 31,967,103
Capital assets being depreciated/amortized, net	66,018,444	4,637,090	70,655,534
	<u>94,254,883</u>	<u>8,367,754</u>	<u>102,622,637</u>
Related debt -			
Leases payable	57,278	-	57,278
	<u>57,278</u>	<u>-</u>	<u>57,278</u>
<b>Net investment in capital assets</b>	<u><u>\$ 94,197,605</u></u>	<u><u>\$ 8,367,754</u></u>	<u><u>\$ 102,565,359</u></u>

### 22. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the City for providing emergency services to its citizens, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past two years, the City has been awarded funds from various sources to respond to the impacts of the COVID-19 pandemic. Approximately \$18.9 million received through the State and Local Fiscal Recovery Fund has been reported as unearned revenue and is available to spend at year end. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the City.

■ ■ ■ ■ ■

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

General Employees' Retirement System

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

	Fiscal Year Ended June 30,		
	2022	2021	2020
<b>Total pension liability</b>			
Service cost	\$ 251,497	\$ 219,594	\$ 233,616
Interest	16,433,760	16,988,197	17,384,038
Changes in benefit terms	-	3,277,435	3,402,001
Differences between expected and actual experience	(6,037,890)	(2,528,619)	1,139,898
Changes in assumptions	-	40,406,912	-
Benefit payments, including refunds of member contributions	(26,890,294)	(27,500,762)	(28,114,053)
<b>Net change in total pension liability</b>	<b>(16,242,927)</b>	<b>30,862,757</b>	<b>(5,954,500)</b>
Total pension liability, beginning of year	287,096,992	256,234,235	262,188,735
<b>Total pension liability, end of year</b>	<b>270,854,065</b>	<b>287,096,992</b>	<b>256,234,235</b>
<b>Plan fiduciary net position</b>			
Net investment income (loss)	84,736,747	65,127,780	87,393,680
Benefit payments, including refunds of member contributions	(26,890,294)	(27,500,762)	(28,114,053)
Administrative expense	(799,944)	(652,449)	(691,928)
Transfers to City of Pontiac	(8,000,000)	-	-
Other	41,963	107,539	55,649
<b>Net change in plan fiduciary net position</b>	<b>49,088,472</b>	<b>37,082,108</b>	<b>58,643,348</b>
Plan fiduciary net position, beginning of year	549,899,376	512,817,268	454,173,920
<b>Plan fiduciary net position, end of year</b>	<b>598,987,848</b>	<b>549,899,376</b>	<b>512,817,268</b>
<b>City's net pension asset</b>	<b>\$ (328,133,783)</b>	<b>\$ (262,802,384)</b>	<b>\$ (256,583,033)</b>
Plan fiduciary net position as a percentage of the total pension liability	221.1%	191.5%	200.1%
Covered payroll	\$ 1,294,948	\$ 1,349,022	\$ 1,391,765
City's net pension asset as a percentage of covered payroll	25339.5%	19481.0%	18435.8%

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

**Assumption Changes.** In fiscal year 2016, the mortality tables were updated from the 1983 Group Annuity Mortality table to RP-2014 Blue Collar tables. In fiscal year 2017, changes included a decrease in the discount rate from 7.50% to 7.00%, and the mortality tables were updated from RP-2014 Blue Collar tables to RP-2014 Healthy Annuity Mortality table (unadjusted) projected to 2021 using static projection based on the two-dimensional MP-2014 improvement scales. In fiscal year 2021, the discount rate decreased from 7.00% to 6.00%, the mortality tables were adjusted. The System moved RP-2014 Healthy Annuity Mortality Table (unadjusted) projected to 2021 using a static projection based on two-dimensional MP-2014 improvement scales to the following: a.) actives: the Pub-2010 amount-weighted, General, Employee, male and female tables, with future mortality improvements projected generationally to 2030 using scale MP-2019, b.) healthy retirees: the Pub-2010 amount-weighted, general, healthy retiree, male and female tables, with future mortality improvements projected generationally to 2030 using scale MP-2019 with male and female rates scaled by 95%, c.) disabled retirees: the Pub-2010 amount-weighted, general, disabled retiree, male and female tables, with future mortality improvements projected generationally to 2030 using scale MP-2019.

Fiscal Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 147,521	\$ 350,549	\$ 324,671	\$ 314,272	\$ 279,187
17,725,816	17,598,425	17,944,933	19,232,034	19,973,828
3,470,936	10,658,814	-	5,407,365	-
1,839,373	871,705	5,189,027	(23,548,600)	(2,538,358)
-	-	15,686,953	9,124,140	-
(28,199,311)	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
(5,015,665)	2,562,581	12,026,050	(17,523,382)	(9,792,575)
267,204,400	264,641,819	252,615,769	270,139,151	279,931,726
262,188,735	267,204,400	264,641,819	252,615,769	270,139,151
(23,328,559)	67,868,606	34,606,547	(3,414,613)	29,460,854
(28,199,310)	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
(770,714)	(696,340)	(683,083)	(954,593)	(699,715)
-	-	-	-	-
35,826	29,291	5,748	37,357	-
(52,262,757)	40,284,645	6,809,678	(32,384,442)	1,253,907
506,436,677	466,152,032	459,342,354	491,726,796	490,472,889
454,173,920	506,436,677	466,152,032	459,342,354	491,726,796
<u>\$ (191,985,185)</u>	<u>\$ (239,232,277)</u>	<u>\$ (201,510,213)</u>	<u>\$ (206,726,585)</u>	<u>\$ (221,587,645)</u>
173.2%	189.5%	176.1%	181.8%	182.0%
\$ 1,427,628	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
13447.8%	16494.8%	13081.1%	13522.8%	14990.0%

**This page intentionally left blank.**

## 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 Excess (Deficiency)	Covered Payroll	Contributions as Percentage of Covered Payroll
2022	\$ -	\$ -	\$ -	\$ 1,294,948	0.0%
2021	-	-	-	1,349,022	0.0%
2020	-	-	-	1,391,765	0.0%
2019	-	-	-	1,427,628	0.0%
2018	-	-	-	1,450,352	0.0%
2017	-	-	-	1,540,472	0.0%
2016	-	-	-	1,528,731	0.0%
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 December 31; the most recent valuation is as of December 31, 2021.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.6 - 7.4% (includes inflation)
Investment rate of return	6.0%, net of System investment expense, including inflation
Retirement age	Age-based table of rates are specific to the type of eligibility condition
Mortality rates	The Pub-2010 Amount-Weighted, General, Employee, Male and Female tables, with future mortality improvements projected generationally to 2030, using scale MP-2019

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

Police and Fire Retirement System

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

	Fiscal Year Ended June 30,		
	2022	2021	2020
<b>Total pension liability</b>			
Interest	\$ 17,521,865	\$ 17,278,079	\$ 17,523,601
Changes in benefit terms	-	627,852	666,543
Differences between expected and actual experience	281,827	1,610,674	(181,582)
Changes in assumptions	5,950,258	4,639,281	(556,186)
Benefit payments, including refunds of member contributions	(20,945,892)	(20,864,910)	(20,587,103)
<b>Net change in total pension liability</b>	<u>2,808,058</u>	<u>3,290,976</u>	<u>(3,134,727)</u>
Total pension liability, beginning of year	<u>244,097,813</u>	<u>240,806,837</u>	<u>243,941,564</u>
<b>Total pension liability, end of year</b>	<u>246,905,871</u>	<u>244,097,813</u>	<u>240,806,837</u>
<b>Plan fiduciary net position</b>			
Employer contributions	4,745,450	1,835,294	2,133,428
Net investment income (loss)	33,115,699	19,678,345	33,045,584
Benefit payments, including refunds of member contributions	(20,945,892)	(20,864,910)	(20,587,103)
Administrative expense	(306,187)	(365,072)	(297,302)
Other	1,350	1,482	3,583
<b>Net change in plan fiduciary net position</b>	<u>16,610,420</u>	<u>285,139</u>	<u>14,298,190</u>
Plan fiduciary net position, beginning of year	<u>221,221,590</u>	<u>220,936,451</u>	<u>206,638,261</u>
<b>Plan fiduciary net position, end of year</b>	<u>237,832,010</u>	<u>221,221,590</u>	<u>220,936,451</u>
<b>City's net pension liability</b>	<u>\$ 9,073,861</u>	<u>\$ 22,876,223</u>	<u>\$ 19,870,386</u>
Plan fiduciary net position as a percentage of the total pension liability	96.3%	90.6%	91.7%
Covered payroll	\$ -	\$ -	\$ -
City's net pension liability as a percentage of covered payroll	0.0%	0.0%	0.0%

Note: Contributions to the plan are not based on a measure of pay; therefore, no covered payroll is presented.

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

*Assumption Changes.* In fiscal year 2017, the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2016 was used, as compared to the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2015 used in fiscal year 2016. In fiscal year 2018, the RP-2014 Blue Collar Table with generational improvements using scale MP-2017 was used. In fiscal year 2019, the RP-2014 Blue Collar Table with generational improvements using scale MP-2018 was used. In fiscal year 2020, the RP-2014 Blue Collar Table with generational improvements using scale MP-2019 was used. During fiscal year 2021, the Retirement System used the Pub-S 1010 Mortality Table with generational improvements using scale MP-2020. During fiscal year 2022, the Retirement System used the Pub-S 2010 Mortality Table with generational improvement using scale MP-2021.

Fiscal Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 17,768,283	\$ 18,015,944	\$ 18,142,691	\$ 17,667,136	\$ 17,801,885
464,793	765,616	780,417	1,179,108	-
(451,296)	(575,621)	2,964,382	4,777,253	67,662
(434,944)	(606,903)	(2,147,637)	3,437,195	-
(20,631,416)	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
(3,284,580)	(3,571,910)	(1,948,830)	7,309,438	(1,711,593)
247,226,144	250,798,054	252,746,884	245,437,446	247,149,039
243,941,564	247,226,144	250,798,054	252,746,884	245,437,446
2,412,557	1,773,627	2,041,923	2,327,949	901,797
(7,116,516)	28,866,568	18,343,180	1,600,942	15,235,786
(20,631,416)	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
(257,590)	(310,593)	(300,220)	(328,225)	(332,389)
10,085	5,188	25,735	1,020	40,671
(25,582,880)	9,163,844	(1,578,065)	(16,149,568)	(3,735,275)
232,221,141	223,057,297	224,635,362	240,784,930	244,520,205
206,638,261	232,221,141	223,057,297	224,635,362	240,784,930
\$ 37,303,303	\$ 15,005,003	\$ 27,740,757	\$ 28,111,522	\$ 4,652,516
84.7%	93.9%	88.9%	88.9%	98.1%
\$ -	\$ -	\$ -	\$ -	\$ -
0.0%	0.0%	0.0%	0.0%	0.0%

**This page intentionally left blank.**

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

Police and Fire Retirement System  
Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered Payroll	Contributions as Percentage of Covered Payroll
2022	\$ 2,248,844	\$ 4,745,450	\$ 2,496,606	\$ -	0.0%
2021	1,835,294	1,835,294	-	-	0.0%
2020	2,133,428	2,133,428	-	-	0.0%
2019	2,412,557	2,412,557	-	-	0.0%
2018	1,773,627	1,773,627	-	-	0.0%
2017	2,041,923	2,041,923	-	-	0.0%
2016	2,327,949	2,327,949	-	-	0.0%
2015	901,797	901,797	-	-	0.0%

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

#### Notes to Schedule of Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30, two and a half years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2021.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	Market value of assets with a 5-year phase in of gains and losses, subject to a 20% corridor
Inflation	0.0%
Salary increases	N/A
Investment rate of return	7.25%, net of pension plan investment expense
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality rates	Healthy Mortality: Pub-S 2010 Mortality Table with generational improvements using scale MP-2021 Disabled Mortality: Pub-S 2010 Mortality Table with generational improvements using scale MP-2021
Other information	Cost-of-living adjustments are 2.0% of original pension amounts at retirement for certain plan members and applied to years of retirement

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information

Police and Fire Retirement System VEBA

Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios

	Fiscal Year Ended June 30,		
	2022	2021	2020
<b>Total OPEB liability</b>			
Interest on total OPEB liability	\$ 2,188,092	\$ 2,812,830	\$ 2,857,872
Difference between expected and actual experience	10,889,799	(8,263,788)	(1,140,426)
Changes of assumptions	7,242,518	-	(3,059,994)
Benefit payments	(3,239,940)	(2,530,663)	(2,614,513)
<b>Net change in total OPEB liability</b>	<u>17,080,469</u>	<u>(7,981,621)</u>	<u>(3,957,061)</u>
Total OPEB liability, beginning of year	<u>30,765,238</u>	<u>38,746,859</u>	<u>42,703,920</u>
<b>Total OPEB liability, end of year</b>	<u>47,845,707</u>	<u>30,765,238</u>	<u>38,746,859</u>
<b>Plan fiduciary net position</b>			
Employer contributions	-	-	-
Benefit payments, including refunds	(3,239,940)	(2,530,663)	(2,614,513)
Net investment income (loss)	7,043,169	3,023,527	6,263,203
Administrative expense	(94,449)	(46,032)	(49,079)
Other	15,628	161,792	3,081
<b>Net change in plan fiduciary net position</b>	<u>3,724,408</u>	<u>608,624</u>	<u>3,602,692</u>
Plan fiduciary net position, beginning of year	<u>44,057,510</u>	<u>43,448,886</u>	<u>39,846,194</u>
<b>Plan fiduciary net position, end of year</b>	<u>47,781,918</u>	<u>44,057,510</u>	<u>43,448,886</u>
<b>Net OPEB (asset) liability</b>	<u>\$ 63,789</u>	<u>\$ (13,292,272)</u>	<u>\$ (4,702,027)</u>
Plan fiduciary net position as a percentage of total OPEB liability	99.9%	143.2%	112.1%

Note: Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**Assumption Changes.** In fiscal year 2018, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.10% to 6.50%. In fiscal year 2019, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.50% to 6.90%. In fiscal year 2020, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.90% to 7.50%, and mortality table from the SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2018 improvement scale to various SOA Pub-2010 headcount-weighted tables fully generational using scale MP-2019. In fiscal year 2022, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.50 percent to 6.50 percent. Additionally, the mortality table was updated from the SOA Pub- 2010 Headcount-weighted tables fully generational using Scale MP-2019 to various SOA Pub-2010 Mortality tables fully generational using Scale MP-2021. Finally, health care trend rates have been updated to an initial rate of 7.50 percent decreasing by 0.50 percent annually to an ultimate rate of 4.50 percent for pre-65 retirees, and reset to an initial rate of 6.50 percent decreasing by 0.50 percent annually to an ultimate rate of 4.50 percent for post-65 retirees.



Fiscal Year Ended June 30,	
2019	2018

\$ 2,983,381	\$ 2,890,913
(2,597,547)	3,832,503
(2,409,464)	551,988
(2,304,955)	(1,887,615)
<u>(4,328,585)</u>	<u>5,387,789</u>

<u>47,032,505</u>	<u>41,644,716</u>
-------------------	-------------------

<u>42,703,920</u>	<u>47,032,505</u>
-------------------	-------------------

4,073,975	-
(2,304,955)	(1,887,615)
(2,848,439)	4,508,528
(55,482)	(95,449)
29,049	845
<u>(1,105,852)</u>	<u>2,526,309</u>

<u>40,952,046</u>	<u>38,425,737</u>
-------------------	-------------------

<u>39,846,194</u>	<u>40,952,046</u>
-------------------	-------------------

<u><u>\$ 2,857,726</u></u>	<u><u>\$ 6,080,459</u></u>
----------------------------	----------------------------

93.3%

87.1%

**This page intentionally left blank.**

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

Police and Fire Retirement System VEBA

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2022	\$ -	\$ -	\$ -	n/a	n/a
2021	-	-	-	n/a	n/a
2020	-	2,925,244	2,925,244	n/a	n/a
2019	82,480	-	(82,480)	n/a	n/a
2018	287,012	-	(287,012)	n/a	n/a

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Note: The amount shown as contributions for 2020 relate to the court judgment against the City for 2012 contributions, which was partially received in 2020. Actuarially determined contribution was zero for 2021 and 2022.

#### Notes to Schedule of Contributions

Notes Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine rates:

Actuarial cost method	Entry-age normal, level % of salary
Amortization method	Level dollar, closed
Remaining amortization period	28 years
Asset valuation method	Market value
Inflation	2.50%
Health care trend rates	7.75% decreasing 0.50% per year to an ultimate rate of 4.5% for 2028 and later years
Investment rate of return	6.50%, net of OPEB plan investment expense, including inflation
Mortality	Various SOA Pub-2010 headcount-weighted tables fully generational using Scale MP-2021

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

#### Retiree Health Care Plan

#### Schedule of Changes in Total OPEB Liability and Related Ratios

	Fiscal Year Ended June 30,		
	2022	2021	2020
<b>Total OPEB liability</b>			
Interest on total OPEB liability	\$ 1,148,076	\$ 2,192,953	\$ 2,574,801
Changes in benefit terms	-	-	-
Difference between expected and actual experience	8,259,187	(19,116,925)	(1,308,160)
Changes of assumptions	4,611,723	7,450,672	7,449,434
Benefit payments	(3,123,412)	(4,141,100)	(4,041,063)
<b>Net change in total OPEB liability</b>	<b>10,895,574</b>	<b>(13,614,400)</b>	<b>4,675,012</b>
Total OPEB liability, beginning of year	55,708,030	69,322,430	64,647,418
<b>Total OPEB liability, end of year</b>	<b>\$ 66,603,604</b>	<b>\$ 55,708,030</b>	<b>\$ 69,322,430</b>
Covered-employee payroll	n/a	n/a	n/a
Total OPEB liability as a percentage of covered-employee payroll	n/a	n/a	n/a

Note: Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

**Assumption Changes:** In fiscal year 2018, the mortality table improvement scale updated from SS 2016 improvement scale to SS 2017 improvement scale, and healthcare trend rates reset to an initial rate of 9.0% for pre-Medicare and 7.0% for Medicare, decreasing by 0.5% annually to an ultimate rate of 5.0% for pre-Medicare and 4.0% for Medicare. In fiscal year 2019, the discount rate was adjusted from 3.44% to 4.11%. In fiscal year 2020, the mortality tables changed from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale SS-2017 for all plan participants to the following: SOA Pub.H-2010 Public Safety Mortality Table fully generational using Scale MP-2020 for police and fire retirees, SOA Pub.H-2010 General Mortality Table fully generational using Scale MP-2020 for general retirees, SOA Pub.H-2010 Disabled Public Safety Mortality Table fully generational using Scale MP-2020 for disabled police and fire retirees, SOA Pub.H-2010 Disabled General Mortality Table fully generational using Scale MP-2020 for disabled general retirees, and SOA Pub.H-2010 Contingent Survivor Mortality Table fully generational using Scale MP-2020 for beneficiaries. Additionally, healthcare trend rates reset to an initial rate of 8.0% for pre-Medicare and 6.5% for Medicare, decreasing by 0.5% annually to an ultimate rate of 4.5% for pre-Medicare and 4.0% for Medicare. In fiscal year 2021, the discount rate was adjusted from 3.26% to 2.12%. In fiscal year 2022, the discount rate was adjusted from 2.12% to 2.25%. Additionally, healthcare trend rates have been updated to an initial rate of 7.0% decreasing by 0.5% annually to an ultimate rate of 4.5% for pre-65 retirees, and reset to an initial rate of 6.25% decreasing by 0.5% annually to an ultimate rate of 4.5% for post-65 retirees.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.



Fiscal Year Ended June 30,	
2019	2018
\$ 2,693,118	\$ 3,237,511
-	(6,518,093)
(8,545,849)	391,102
(5,607,379)	(4,610,100)
(4,325,000)	-
<u>(15,785,110)</u>	<u>(7,499,580)</u>
<u>80,432,528</u>	<u>87,932,108</u>
<u>\$ 64,647,418</u>	<u>\$ 80,432,528</u>
n/a	n/a
n/a	n/a

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes and special assessments	\$ 8,712,819	\$ 8,712,819	\$ 9,169,417	\$ 456,598
Income taxes	15,161,500	15,161,500	17,289,957	2,128,457
Federal	25,000	25,000	130,699	105,699
State	10,847,816	10,847,816	12,227,122	1,379,306
Charges for services	1,082,700	1,082,700	1,474,425	391,725
Fines and forfeitures	28,000	28,000	65,470	37,470
Licenses and permits	213,400	213,400	135,630	(77,770)
Investment income (loss)	450,900	450,900	191,202	(259,698)
Other	2,123,479	2,123,479	2,118,567	(4,912)
<b>Total revenues</b>	<b>38,645,614</b>	<b>38,645,614</b>	<b>42,802,489</b>	<b>4,156,875</b>
<b>Expenditures</b>				
Current:				
General government	7,439,270	8,044,184	6,438,906	(1,605,278)
Public safety	23,431,261	23,431,261	23,949,625	518,364
Public works	2,997,386	3,187,386	2,809,947	(377,439)
Community and economic development	2,339,548	2,369,548	1,963,229	(406,319)
Recreation and culture	593,307	785,307	662,315	(122,992)
Retiree fringe benefits	2,516,607	2,516,607	2,549,061	32,454
Debt service:				
Principal	-	-	294,233	294,233
Lease principal	80,000	80,000	66,264	(13,736)
Interest and fiscal charges	-	-	447,601	447,601
<b>Total expenditures</b>	<b>39,317,379</b>	<b>40,334,293</b>	<b>39,181,181</b>	<b>(1,513,609)</b>
Revenues over (under) expenditures	(671,765)	(1,688,679)	3,621,308	5,670,484
<b>Other financing sources (uses)</b>				
Transfers in	6,437,803	6,557,803	16,056	(6,541,747)
Transfers out	(2,864,004)	(2,864,004)	(1,927,667)	(936,337)
Issuance of long-term debt	-	-	330,400	(330,400)
<b>Total other financing sources (uses)</b>	<b>3,573,799</b>	<b>3,693,799</b>	<b>(1,581,211)</b>	<b>(7,808,484)</b>
<b>Net change in fund balance</b>	<b>2,902,034</b>	<b>2,005,120</b>	<b>2,040,097</b>	<b>34,977</b>
Fund balance, beginning of year	21,470,695	21,470,695	21,470,695	-
<b>Fund balance, end of year</b>	<b>\$ 24,372,729</b>	<b>\$ 23,475,815</b>	<b>\$ 23,510,792</b>	<b>\$ 34,977</b>

See notes to required supplementary information.

## CITY OF PONTIAC, MICHIGAN

### Budgetary Comparison Schedule

Major Streets Special Revenue Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
State revenue	\$ 6,068,289	\$ 6,068,289	\$ 6,500,954	\$ 432,665
Investment income (loss)	7,100	7,100	(8,800)	(15,900)
Other revenue	600,058	600,058	472,211	(127,847)
<b>Total revenues</b>	6,675,447	6,675,447	6,964,365	288,918
<b>Expenditures</b>				
Public works	7,387,889	8,437,889	6,105,374	(2,332,515)
<b>Net change in fund balance</b>	(712,442)	(1,762,442)	858,991	2,621,433
Fund balance, beginning of year	5,779,722	5,779,722	5,779,722	-
<b>Fund balance, end of year</b>	<u>\$ 5,067,280</u>	<u>\$ 4,017,280</u>	<u>\$ 6,638,713</u>	<u>\$ 2,621,433</u>

See notes to required supplementary information.

## CITY OF PONTIAC, MICHIGAN

### Budgetary Comparison Schedule

Progress for Pontiac Special Revenue Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Other financing uses</b>				
Transfers out	\$ (5,800,000)	\$ (5,920,000)	\$ -	\$ (5,920,000)
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<u>\$ (5,800,000)</u>	<u>\$ (5,920,000)</u>	<u>\$ -</u>	<u>\$ (5,920,000)</u>

See notes to required supplementary information.

## CITY OF PONTIAC, MICHIGAN

### Budgetary Comparison Schedule

VEBA Retiree Healthcare Opt Out Special Revenue Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Other revenue	\$ -	\$ -	\$ 8,000,000	\$ 8,000,000
<b>Expenditures</b>				
General government	-	-	4,000,000	4,000,000
<b>Net change in fund balance</b>	-	-	4,000,000	4,000,000
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>

See notes to required supplementary information.

## CITY OF PONTIAC, MICHIGAN

### Note to Required Supplementary Information

#### 1. BUDGETARY INFORMATION

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

Budget requests are reviewed by the budget department, finance department and executive office. The final budget is adopted by June 30 each year. City Council adopted the final budget for the June 30, 2022 year end.

City officials responsible for the expenditures authorized in the budget may expend City funds up to, but not to exceed, the total appropriated authorized for each function.

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

During the year ended June 30, 2022, the City incurred expenditures in excess of the amounts appropriated as follows:

	Amended Budget	Actual	Over Budget
<b>General fund</b>			
Public safety	\$ 23,431,261	\$ 23,949,625	\$ 518,364
Retiree fringe benefits	2,516,607	2,549,061	32,454
Principal	-	294,233	294,233
Interest and fiscal charges	-	447,601	447,601
<b>VEBA retiree healthcare opt-out special revenue fund</b>			
General government	-	4,000,000	4,000,000

■ ■ ■ ■ ■

## **OTHER SUPPLEMENTAL INFORMATION**

# CITY OF PONTIAC, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2022

	Special Revenue Funds					
	Youth Recreation	PA-48 Tele- communication Allocation	Community Development Block Grant	Home Buyers Assistance	Local Streets	Senior Activities
<b>Assets</b>						
Cash and investments	\$ 880,534	\$ 23,222	\$ 30,335	\$ 23,638	\$ 2,723,063	\$ 919,486
Accounts receivable	-	-	-	-	-	-
Taxes receivable, net	52,842	-	-	-	-	34,027
Interest receivable	-	-	-	-	642	73
Due from other governments	-	-	-	-	300,233	-
Due from other funds	-	-	-	-	-	-
Prepays	28,683	-	-	-	-	254
Restricted assets	-	-	-	-	-	-
<b>Total assets</b>	<u>\$ 962,059</u>	<u>\$ 23,222</u>	<u>\$ 30,335</u>	<u>\$ 23,638</u>	<u>\$ 3,023,938</u>	<u>\$ 953,840</u>
<b>Liabilities</b>						
Accounts payable	\$ 3,550	\$ -	\$ -	\$ -	\$ 757,292	\$ 53,869
Accrued wages	7,617	-	-	-	2,654	2,851
Unearned revenue	-	-	-	-	-	-
Due to other governments	1,030	-	-	-	-	602
Due to other funds	-	-	-	-	402,742	-
Interfund payable	-	-	-	-	-	-
Deposits payable	-	-	-	-	-	400
<b>Total liabilities</b>	<u>12,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,162,688</u>	<u>57,722</u>
<b>Deferred inflows of resources</b>						
Unavailable revenue	<u>2,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>482</u>	<u>1,713</u>
<b>Fund balances</b>						
Nonspendable	28,683	-	-	-	-	254
Restricted	918,613	23,222	30,335	23,638	1,860,768	894,151
Committed	-	-	-	-	-	-
<b>Total fund balances</b>	<u>947,296</u>	<u>23,222</u>	<u>30,335</u>	<u>23,638</u>	<u>1,860,768</u>	<u>894,405</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 962,059</u>	<u>\$ 23,222</u>	<u>\$ 30,335</u>	<u>\$ 23,638</u>	<u>\$ 3,023,938</u>	<u>\$ 953,840</u>

Special Revenue Funds						Capital Projects	
Drug Enforcement	Cable	Building Inspection	District Court	Sanitation	MIDC Grant	Capital Improvement	Total
\$ 167,508	\$ 1,112,286	\$ 4,323,496	\$ -	\$ 5,394,959	\$ 268,028	\$ 4,261,399	\$ 20,127,954
-	-	-	-	542,518	-	-	542,518
-	-	-	-	190,825	-	96,873	374,567
14	88	103	-	1,038	-	395	2,353
-	-	-	-	-	-	-	300,233
-	-	-	568,005	-	-	-	568,005
-	217	-	338	-	-	1,083	30,575
-	-	-	-	2,047,289	-	-	2,047,289
<u>\$ 167,522</u>	<u>\$ 1,112,591</u>	<u>\$ 4,323,599</u>	<u>\$ 568,343</u>	<u>\$ 8,176,629</u>	<u>\$ 268,028</u>	<u>\$ 4,359,750</u>	<u>\$ 23,993,494</u>
\$ -	\$ 16,369	\$ 147,919	\$ 16,013	\$ 699,711	\$ 45,697	\$ 69,974	\$ 1,810,394
-	1,993	-	22,236	891	1,119	-	39,361
-	-	-	-	-	221,212	463,224	684,436
-	-	-	-	3,019	-	1,693	6,344
-	-	-	-	-	-	-	402,742
-	-	-	14,799	-	-	-	14,799
-	-	1,315	59,183	-	-	-	60,898
-	18,362	149,234	112,231	703,621	268,028	534,891	3,018,974
14	-	-	-	552,039	-	5,108	561,922
-	217	-	338	-	-	1,083	30,575
167,508	1,094,012	4,174,365	-	6,920,969	-	3,763,668	19,871,249
-	-	-	455,774	-	-	55,000	510,774
167,508	1,094,229	4,174,365	456,112	6,920,969	-	3,819,751	20,412,598
<u>\$ 167,522</u>	<u>\$ 1,112,591</u>	<u>\$ 4,323,599</u>	<u>\$ 568,343</u>	<u>\$ 8,176,629</u>	<u>\$ 268,028</u>	<u>\$ 4,359,750</u>	<u>\$ 23,993,494</u>

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds  
For the Year Ended June 30, 2022

	Special Revenue Funds					
	Youth Recreation	PA-48 Tele- communication Allocation	Community Development Block Grant	Home Buyers Assistance	Local Streets	Senior Activities
<b>Revenues</b>						
Property taxes and special assessments	\$ 560,614	\$ -	\$ -	\$ -	\$ -	\$ 368,590
State revenue	66,295	-	-	-	1,934,303	35,286
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Investment income (loss)	-	-	-	-	(7,844)	(6,419)
Other revenue	70,000	-	-	20,000	-	-
<b>Total revenues</b>	<b>696,909</b>	<b>-</b>	<b>-</b>	<b>20,000</b>	<b>1,926,459</b>	<b>397,457</b>
<b>Expenditures</b>						
Current:						
General government	-	-	-	-	-	-
District court	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	2,778,514	-
Community and human services	-	-	-	-	-	492,176
Recreation and culture	569,302	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total expenditures</b>	<b>569,302</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,778,514</b>	<b>492,176</b>
Revenues over (under) expenditures	127,607	-	-	20,000	(852,055)	(94,719)
<b>Other financing sources (uses)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>127,607</b>	<b>-</b>	<b>-</b>	<b>20,000</b>	<b>(852,055)</b>	<b>(94,719)</b>
Fund balances, beginning of year	819,689	23,222	30,335	3,638	2,712,823	989,124
<b>Fund balances, end of year</b>	<b>\$ 947,296</b>	<b>\$ 23,222</b>	<b>\$ 30,335</b>	<b>\$ 23,638</b>	<b>\$ 1,860,768</b>	<b>\$ 894,405</b>

Special Revenue Funds						Capital Projects	
Drug Enforcement	Cable	Building Inspection	District Court	Sanitation	MIDC Grant	Capital Improvement	Total
\$ -	\$ -	\$ -	\$ -	\$ 2,081,440	\$ -	\$ 1,040,763	\$ 4,051,407
-	-	-	137,172	11,762	-	33,146	2,217,964
-	-	101,185	590,462	2,198,964	-	-	2,890,611
24,184	-	-	827,421	-	-	-	851,605
-	-	2,569,631	-	-	-	-	2,569,631
127	(6,545)	(8,766)	882	(38,392)	-	(15,700)	(82,657)
-	103,767	-	-	-	496,113	-	689,880
24,311	97,222	2,662,050	1,555,937	4,253,774	496,113	1,058,209	13,188,441
-	217,377	-	-	-	501,452	-	718,829
-	-	-	2,951,203	-	-	-	2,951,203
45,601	-	2,325,985	-	-	-	-	2,371,586
-	-	-	-	4,504,468	-	-	7,282,982
-	-	-	-	-	-	-	492,176
-	-	-	-	-	-	-	569,302
-	-	-	-	-	-	454,386	454,386
45,601	217,377	2,325,985	2,951,203	4,504,468	501,452	454,386	14,840,464
(21,290)	(120,155)	336,065	(1,395,266)	(250,694)	(5,339)	603,823	(1,652,023)
-	-	-	1,872,667	-	5,339	55,000	1,933,006
-	-	-	(21,395)	-	-	-	(21,395)
-	-	-	1,851,272	-	5,339	55,000	1,911,611
(21,290)	(120,155)	336,065	456,006	(250,694)	-	658,823	259,588
188,798	1,214,384	3,838,300	106	7,171,663	-	3,160,928	20,153,010
\$ 167,508	\$ 1,094,229	\$ 4,174,365	\$ 456,112	\$ 6,920,969	\$ -	\$ 3,819,751	\$ 20,412,598

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Net Position

Internal Service Funds

June 30, 2022

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 1,685,943	\$ -	\$ 536,538	\$ 2,222,481
Accounts receivable	9,232	1,496,753	-	1,505,985
Prepays	63,915	5,997,292	-	6,061,207
<b>Total assets</b>	<b>1,759,090</b>	<b>7,494,045</b>	<b>536,538</b>	<b>9,789,673</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	165,484	55,178	-	220,662
Accrued liabilities	260,373	118,065	-	378,438
Due to other funds	-	3,961,050	-	3,961,050
Interfund payable	-	1,137,834	-	1,137,834
Current portion of compensated absences	-	-	416,333	416,333
<b>Total current liabilities</b>	<b>425,857</b>	<b>5,272,127</b>	<b>416,333</b>	<b>6,114,317</b>
Noncurrent liabilities - Compensated absences, net of current portion	-	-	120,205	120,205
<b>Total liabilities</b>	<b>425,857</b>	<b>5,272,127</b>	<b>536,538</b>	<b>6,234,522</b>
<b>Net position</b>				
Unrestricted	\$ 1,333,233	\$ 2,221,918	\$ -	\$ 3,555,151

## CITY OF PONTIAC, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2022

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Operating revenues</b>				
Charges for services	\$ 399,172	\$ 5,488,088	\$ -	\$ 5,887,260
Other	-	708,701	-	708,701
<b>Total operating revenues</b>	<u>399,172</u>	<u>6,196,789</u>	<u>-</u>	<u>6,595,961</u>
<b>Operating expenses</b>				
Insurance	-	6,112,488	-	6,112,488
Workers' compensation	271,677	-	-	271,677
<b>Total operating expenses</b>	<u>271,677</u>	<u>6,112,488</u>	<u>-</u>	<u>6,384,165</u>
<b>Change in net position</b>	127,495	84,301	-	211,796
Net position, beginning of year	<u>1,205,738</u>	<u>2,137,617</u>	<u>-</u>	<u>3,343,355</u>
<b>Net position, end of year</b>	<u>\$ 1,333,233</u>	<u>\$ 2,221,918</u>	<u>\$ -</u>	<u>\$ 3,555,151</u>

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2022

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Cash flows from operating activities</b>				
Cash payments to suppliers	\$ (194,217)	\$ (5,486,220)	\$ -	\$ (5,680,437)
Cash received from interfund services	390,353	5,127,884	160,002	5,678,239
<b>Net change in cash and investments</b>	196,136	(358,336)	160,002	(2,198)
Cash and investments, beginning of year	1,489,807	358,336	376,536	2,224,679
<b>Cash and investments, end of year</b>	<u>\$ 1,685,943</u>	<u>\$ -</u>	<u>\$ 536,538</u>	<u>\$ 2,222,481</u>
<b>Reconciliation of operating income to net cash provided (used) in operating activities</b>				
Operating income	\$ 127,495	\$ 84,301	\$ -	\$ 211,796
Adjustments to reconcile operating income to net cash provided (used) in operating activities:				
Change in:				
Accounts receivable	(8,819)	(1,068,905)	-	(1,077,724)
Prepays	(6,504)	(135,710)	-	(142,214)
Accounts payable	158,666	3,435	-	162,101
Accrued liabilities	(74,702)	(379,291)	-	(453,993)
Interfund payable	-	1,137,834	-	1,137,834
Compensated absences	-	-	160,002	160,002
<b>Net cash provided (used) in operating activities</b>	<u>\$ 196,136</u>	<u>\$ (358,336)</u>	<u>\$ 160,002</u>	<u>\$ (2,198)</u>

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Fiduciary Net Position

Custodial Funds

June 30, 2022

	District Court	Current Tax Collection	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 142,731	\$ 130,872	\$ 273,603
Due from other governments	-	10,424	10,424
<b>Total assets</b>	<u>142,731</u>	<u>141,296</u>	<u>284,027</u>
<b>Liabilities</b>			
Accounts payable	50	-	50
Due to other governments	-	141,296	141,296
Deposits payable	142,681	-	142,681
<b>Total liabilities</b>	<u>142,731</u>	<u>141,296</u>	<u>284,027</u>
<b>Net position</b>			
Restricted for individuals, organizations, and other governments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Changes in Fiduciary Net Position

Custodial Funds

For the Year Ended June 30, 2022

	District Court	Current Tax Collection	Total
<b>Additions</b>			
Taxes collected for other governments	\$ -	\$ 27,785,741	\$ 27,785,741
Court collections	895,490	-	895,490
<b>Total additions</b>	895,490	27,785,741	28,681,231
<b>Deductions</b>			
Payments of taxes to other governments	-	27,785,741	27,785,741
Court distributions	895,490	-	895,490
<b>Total deductions</b>	895,490	27,785,741	28,681,231
<b>Change in net position</b>	-	-	-
Net position, beginning of year	-	-	-
<b>Net position, end of year</b>	\$ -	\$ -	\$ -

## CITY OF PONTIAC, MICHIGAN

### Combining Balance Sheet

Component Units

June 30, 2022

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
<b>Assets</b>					
Cash and investments	\$ -	\$ 183,188	\$ 183,188	\$ 307,517	\$ 490,705
Property taxes receivable - net	-	67,784	67,784	28,137	95,921
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 250,972</u>	<u>\$ 250,972</u>	<u>\$ 335,654</u>	<u>\$ 586,626</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 33,399	\$ 33,399
Due to other governments	-	1,942	1,942	5,660	7,602
Financial guarantee	3,479,326	3,047,143	6,526,469	-	6,526,469
<b>Total liabilities</b>	3,479,326	3,049,085	6,528,411	39,059	6,567,470
<b>Deferred inflows of resources</b>					
Unavailable revenue	-	2,040	2,040	-	2,040
<b>Fund balances</b>					
Unassigned (deficit)	(3,479,326)	(2,800,153)	(6,279,479)	296,595	(5,982,884)
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ -</u>	<u>\$ 250,972</u>	<u>\$ 250,972</u>	<u>\$ 335,654</u>	<u>\$ 586,626</u>

## CITY OF PONTIAC, MICHIGAN

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
Component Units  
June 30, 2022

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
<b>Fund balances (deficits) for component units</b>	\$ (3,479,326)	\$ (2,800,153)	\$ (6,279,479)	\$ 296,595	\$ (5,982,884)
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	-	2,040	2,040	-	2,040
Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.					
	-	383,780	383,780	-	383,780
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.					
Accrued interest on bonds	(4,956)	(112,328)	(117,284)	-	(117,284)
Bonds payable	(610,000)	(14,440,000)	(15,050,000)	-	(15,050,000)
<b>Net position for component units</b>	<u>\$ (4,094,282)</u>	<u>\$ (16,966,661)</u>	<u>\$ (21,060,943)</u>	<u>\$ 296,595</u>	<u>\$ (20,764,348)</u>

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Component Units

For the Year Ended June 30, 2022

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
<b>Revenues</b>					
Taxes	\$ 40	\$ 1,611,460	\$ 1,611,500	\$ 40,049	\$ 1,651,549
State revenue	114,445	184,744	299,189	-	299,189
Charges for services	50,000	-	50,000	-	50,000
Contributions from primary government	185,503	510,509	696,012	-	696,012
<b>Total revenues</b>	<b>349,988</b>	<b>2,306,713</b>	<b>2,656,701</b>	<b>40,049</b>	<b>2,696,750</b>
<b>Expenditures</b>					
Financial guarantee	185,503	510,509	696,012	-	696,012
Debt service:					
Principal	305,000	1,555,000	1,860,000	-	1,860,000
Interest and fiscal charges	44,988	751,713	796,701	-	796,701
<b>Total expenditures</b>	<b>535,491</b>	<b>2,817,222</b>	<b>3,352,713</b>	<b>65,367</b>	<b>3,418,080</b>
<b>Net change in fund balances</b>	<b>(185,503)</b>	<b>(510,509)</b>	<b>(696,012)</b>	<b>(25,318)</b>	<b>(721,330)</b>
Fund balances (deficit), beginning of year	(3,293,823)	(2,289,644)	(5,583,467)	321,913	(5,261,554)
<b>Fund balances (deficit), end of year</b>	<b>\$ (3,479,326)</b>	<b>\$ (2,800,153)</b>	<b>\$ (6,279,479)</b>	<b>\$ 296,595</b>	<b>\$ (5,982,884)</b>

## CITY OF PONTIAC, MICHIGAN

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
Component Units  
For the Year Ended June 30, 2022

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
<b>Net change in fund balances - component units</b>	\$ (185,503)	\$ (510,509)	\$ (696,012)	\$ (25,318)	\$ (721,330)
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.					
	(770)	(7,429)	(8,199)	-	(8,199)
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	305,000	1,555,000	1,860,000	-	1,860,000
Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.					
Change in accrued interest on bonds	2,542	12,958	15,500	-	15,500
Amortization of deferred charge on refunding	-	(42,642)	(42,642)	-	(42,642)
<b>Change in net position of component units</b>	<u>\$ 121,269</u>	<u>\$ 1,007,378</u>	<u>\$ 1,128,647</u>	<u>\$ (25,318)</u>	<u>\$ 1,103,329</u>

## **INTERNAL CONTROL AND COMPLIANCE**

**This page intentionally left blank.**

**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**

March 30, 2023

The Honorable Mayor and City Council  
City of Pontiac  
Pontiac, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Pontiac, Michigan** (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2023. Our report includes a reference to other auditors who audited the fiduciary component unit financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, and the Police and Fire Retirement System VEBA, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2022-001, -002, -003, -004, and -005 that we consider to be material weaknesses.

### **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Pontiac's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Rehmann Lobson LLC*

## CITY OF PONTIAC, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2022

#### 2022-001 – Material Audit Adjustments

**Finding Type.** Material Weakness in Internal Controls over Financial Reporting.

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

**Condition.** During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances.

**Cause.** This condition was the result of a lack of management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances.

**Effect.** As a result of this condition, the City's accounting records were initially misstated by amounts that were material to the financial statements.

**Recommendation.** For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

**View of Responsible Officials.** Management concurs.

**Responsible Official.** Khalfani Stephens, Deputy Mayor

**Estimated Completion Date.** June 30, 2023

## CITY OF PONTIAC, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2022

#### 2022-002 – Preparation of Financial Statements in Accordance with GAAP

**Finding Type.** Material Weakness in Internal Control over Financial Reporting

**Criteria.** The preparation of financial statements in accordance with GAAP is the responsibility of the City's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting).

**Condition.** As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

**Cause.** This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

**Effect.** As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible Officials.** Management concurs.

**Responsible Official.** Khalfani Stephens, Deputy Mayor

**Estimated Completion Date.** June 30, 2023

## CITY OF PONTIAC, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended June 30, 2022

#### 2022-003 – Timely Year-End Closing and Workpaper Reconciliation

**Finding Type.** Material Weakness in Internal Control over Financial Reporting

**Criteria.** The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors. This places the burden on the auditee to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed to perform their procedures.

**Condition.** The City was not ready for the audit on the appointed start date in November. Year-end reconciliations and closing entries were not complete at the start of the audit. Reconciliations and journal entries needed to adjust the City's general ledger to the appropriate balances were still being completed through February 2023, and could not have been completed without the assistance of individuals outside of City personnel.

**Cause.** This condition appears to be the result of turnover and the City's limited resources.

**Effect.** As a result of these conditions, management was unable to timely close the accounting records and prepare for the audit. Additionally, we identified and proposed multiple material audit adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances.

**Recommendation.** We recommend that the City develop and adhere to (with appropriate oversight) a written plan with detailed tasks and completion points for the timely completion of year end closing procedures to ensure timely issuance of the financial statements.

**View of Responsible Officials.** Management concurs.

**Responsible Official.** Khalfani Stephens, Deputy Mayor

**Estimated Completion Date.** June 30, 2023

## CITY OF PONTIAC, MICHIGAN

### **Schedule of Findings and Responses**

For the Year Ended June 30, 2022

#### **2022-004 – Independent Approval for Journal Entries**

**Finding Type.** Material Weakness in Internal Controls over Financial Reporting

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

**Condition.** The City's procedures in place during the fiscal year under audit did not require any independent review or approval of journal entries. Of the 10 selected for testing, eight were missing evidence of approval as required by the City's policies.

**Cause.** This condition appears to be the result of the City not adhering to established internal control policies and procedures.

**Effect.** As a result of this condition, the City is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

**Recommendation.** The City should evaluate its processes and procedures to ensure that all journal entries have documented evidence of review and approval.

**View of Responsible Officials.** Management concurs.

**Responsible Official.** Khalfani Stephens, Deputy Mayor

**Estimated Completion Date.** June 30, 2023

## CITY OF PONTIAC, MICHIGAN

### **Schedule of Findings and Responses**

For the Year Ended June 30, 2022

#### **2022-005 – Bank Reconciliations**

**Finding Type.** Material Weakness in Internal Controls over Financial Reporting

**Criteria.** Timely completion and review of bank reconciliations is an essential internal control to ensure the accuracy and completeness of the City's accounting records.

**Condition.** The City's procedures in place during the fiscal year under audit did not require bank reconciliations be completed and independently reviewed in a timely manner.

**Cause.** This condition appears to be the result of turnover and the City's limited resources.

**Effect.** As a result of this condition, the City is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

**Recommendation.** We recommend the City ensures that all bank reconciliations are completed and independently reviewed on a timely basis.

**View of Responsible Officials.** Management concurs.

**Responsible Official.** Khalfani Stephens, Deputy Mayor

**Estimated Completion Date.** June 30, 2023

■ ■ ■ ■ ■

**This page intentionally left blank.**

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

March 30, 2023

The Honorable Mayor and City Council  
City of Pontiac  
Pontiac, Michigan

We have audited 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, Michigan** (the "City") as of and for the year ended June 30, 2022, and have issued our report thereon dated March 30, 2023. Our report includes a reference to other auditors who audited the fiduciary component unit financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, and the Police and Fire Retirement System VEBA, as described in our report on the City's financial statements. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated May 11, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated March 30, 2023.



## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope previously communicated to you in our engagement letter and in our meeting about planning matters on October 4, 2022. See Significant Difficulties Encountered During the Audit paragraph below related to timing.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## **Significant Risks Identified**

We have identified the risks of management override of internal control and revenue recognition as significant risks, and have obtained an understanding of the City's related controls, including control activities, relevant to such risks.

## **Qualitative Aspects of the City's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements.

The City changed accounting policies related to accounting for leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, *Leases*.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of landfill postclosure costs have been calculated based on state guidelines and landfill utilization to date.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.
- Management's estimate of the discount rate used for leases, the lease term and lease payments/receipts is based on the City's incremental borrowing rate and consideration of the noncancelable period of the lease and reasonably certain lease options.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

#### **Identified or Suspected Fraud**

We have obtained information that indicates that the following misspending or fraud may have occurred.

It was brought to our attention that there may have been improper practices with contracts including operating without a contract, contracts not duly executed, retroactive contracts executed after services were performed, misleading contract pricing and terms, unauthorized spending and excessive spending above allowed limits. Forensic accounting services were performed by a third party. The investigation is still ongoing.

#### **Significant Difficulties Encountered During the Audit**

The timing of our audit procedures was delayed from the schedule agreed to during the planning stages of our engagement due to appropriate supporting information not being made available to us in a timely fashion.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Responses issued in connection with our report on internal control over financial reporting.

The schedule of adjustments passed is included with management's written representations in Attachment B to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment B to this letter.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Upcoming Changes in Accounting Standards**

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the ***City of Pontiac, Michigan*** and is not intended to be and should not be used by anyone other than these specified parties.

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

## CITY OF PONTIAC, MICHIGAN

### Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

#### **GASB 91 ■ Conduit Debt Obligations**

*Effective 12/15/2022 (your FY 2023)*

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the City.

#### **GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements**

*Effective 06/15/2023 (your FY 2023)*

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction.

#### **GASB 96 ■ Subscription-Based Information Technology Arrangements**

*Effective 06/15/2023 (your FY 2023)*

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

#### **GASB 99 ■ Omnibus 2022**

*Effective 06/15/2023 (your FY 2023)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the City.

## CITY OF PONTIAC, MICHIGAN

### ■ Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

#### **GASB 100 ■ Accounting Changes and Error Corrections**

*Effective 06/15/2024 (your FY 2024)*

This standard clarifies the presentation and disclosure requirements for prior period adjustments to beginning net position. We do not expect this standard to have any significant effect on the City.

#### **GASB 101 ■ Compensated Absences**

*Effective 12/15/2024 (your FY 2025)*

This standard revises the liability governments record for compensated absences payable to include any sick, vacation, personal time, or other PTO reasonably expected to be used by employees or paid out to them at termination.

■ ■ ■ ■ ■

## CITY OF PONTIAC, MICHIGAN

### Attachment B – Management Representations

For the June 30, 2022 Audit

The following pages contain the written representations that we requested from management.

**TIM GREIMEL**  
Mayor

**KHALFANI STEPHENS**  
Deputy Mayor



**OFFICE OF THE MAYOR**

47450 Woodward Avenue  
Pontiac, MI 48342  
(248) 758-3133

March 30, 2023

Rehmann Robson  
1249 Griswold Street  
Suite 201  
Detroit, MI 48226

This representation letter is provided in connection with your audit of 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, Michigan* (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 30, 2023:

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 11, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
4. With respect to any assistance you provided in drafting the financial statements and related notes, we have performed the following:
  - a. Made all management decisions and performed all management functions;
  - b. Assigned a competent individual to oversee the services;
  - c. Evaluated the adequacy of the services performed;

- d. Evaluated and accepted responsibility for the result of the service performed; and
  - e. Established and maintained internal controls, including monitoring ongoing activities.
5. We acknowledge our responsibility for 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.
  6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
  7. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
  8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
  9. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
  10. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
  11. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
  12. With regard to items reported at fair value:
    - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
  13. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
  14. All funds and activities are properly classified.
  15. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
  16. All components of net position and fund balance classifications have been properly reported.
  17. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  18. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.

19. There were no omissions from the participants' data provided to the single-employer pension/OPEB Plans' actuary for the purpose of determining the actuarial present value of the Plans' benefit obligations and the other actuarially determined amounts in the financial statements.
20. The single-employer pension/OPEB Plans' administrator agrees with the actuarial methods and assumptions and methods used by the actuary for funding purposes and for determining the Plans' benefit obligations and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the Plans' actuary with respect to the values of amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the Plans' actuary.
21. The following have been properly recorded and disclosed in the financial statements:
  - a. The actuarial methods or assumptions used in calculating amounts recorded or disclosures in the financial statements.
  - b. Changes in the single-employer pension/OPEB Plans' provisions between the actuarial valuation date and the date of this letter.
22. All required filings of the single-employer pension/OPEB Plans' documents with the appropriate agencies have been made.
23. The single-employer pension/OPEB Plan (and the trust established by the Plan) is qualified under the appropriate section of the internal revenue code and we intend to continue as a qualified plan (and trust). The Plan sponsor has operated the Plan in a manner that did not jeopardize this tax status.
24. The single-employer pension/OPEB Plan has complied with the Department of Labor's regulations concerning the timely remittance of participants' contributions to trusts containing assets of the Plan.
25. The single-employer pension/OPEB Plans' management has obtained and reviewed the relevant service auditor's SOC-1 reports and management is performing the applicable user control.
26. In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the City for providing emergency services to its citizens, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past two years, the City has been awarded funds from various sources to respond to the impacts of the COVID-19 pandemic. Approximately \$18.9 million received through the State and Local Fiscal Recovery Fund has been reported as unearned revenue and is available to spend at year end. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the City.

#### **Information Provided**

27. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
28. All transactions have been recorded in the accounting records and are reflected in the financial statements.

29. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
30. We have no knowledge of any fraud or suspected fraud, other than what was already communicated, that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
31. We have no knowledge of any instances, other than what was already communicated, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
32. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
33. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
34. We have a process to track the status of audit findings and recommendations.
35. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
36. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
37. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
38. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
39. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
40. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
41. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
42. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

43. There are no:

- a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
- b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.

44. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

45. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

46. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

47. With respect to the supplementary information accompanying the financial statements:

- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

#### **Required Supplementary Information**

48. With respect to the required supplementary information accompanying the financial statements:

- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
- b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
- c. The methods of measurement or presentation have not changed from those used in the prior period.

- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



---

Tim Greimel, Mayor



---

Khalfani Stephens, Deputy Mayor

## CITY OF PONTIAC, MICHIGAN

### **Schedule of Adjustments Passed (SOAP)**

For the June 30, 2022 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/Expenditures
<b>General fund</b>					
Unsupported over accrual	\$ -	\$ 75,459	\$ -	\$ -	\$ 75,459
<b>Major streets fund</b>					
Over accrual	-	34,985	-	-	34,985
<b>District court fund</b>					
Open bond listing variance	(26,713)	(26,713)	-	-	-
<b>Employee sick and vacation fund</b>					
Over accrual	-	70,959	-	-	70,959
<b>Governmental activities</b>					
Cumulative effect of items noted above	<u>\$ (26,713)</u>	<u>\$ 154,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,403</u>
<b>Misstatement as a percentage of total assets - governmental activities</b>	0.01%	0.03%	0.00%	0.00%	0.03%