

**CITY OF PONTIAC
OAKLAND COUNTY, MICHIGAN
Report on Financial Statements
(With required supplementary and
other supplemental information)**

Year Ended June 30, 2023

**City of Pontiac
Financial Report
For the Year Ended
June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Pontiac
Oakland County, Michigan

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of The City of Pontiac (the City) as of and for the year ended June 30, 2023, 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 percentage of total fiduciary funds:

	<u>Percentage of Assets</u>	<u>Percentage of Additions</u>	<u>Percentage of Net Position</u>
General City Employees' Retirement System	6.59%	-7.49%	6.55%
Reestablished General City Employees' Retirement System	48.97%	105.10%	49.07%
Police and Fire Retirement Systems	25.40%	-4.79%	25.48%
VEBA Trust	14.12%	0.95%	14.15%
Police and Fire Retirement Systems VEBA	4.92%	-1.58%	4.74%

Statements of Police and Fire Retirement Systems and Police and Fire Retirement Systems VEBA 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. Financial information related to the General City Employees' Retirement System, Reestablished General City Employees' Retirement System are included in our report based on draft reports provided to us and are therefore unaudited as of our report date.

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 reports, 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, 2023, 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, 2023, 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 \$105,859,403 (53.33% of fiduciary net position) as of December 31, 2022, 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. Additionally, General City Employees' Retirement System, Reestablished General City Employees' Retirement System, and the VEBA Trust audits weren't completed as of the date of our issuance, therefore the amount by which final audited statements would affect the net pension and OPEB liability of governmental activities related to these funds has not been determined.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control

relevant to the preparation and fair presentation of the 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.

Auditor's 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 auditor's 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 generally accepted 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 generally accepted 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules of major funds, the schedules of the City's share of the net pension liability and pension contributions, the schedules of the City's share of the net postemployment benefit other than pensions (OPEB) liability and OPEB contributions and the notes to required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 of Pontiac, Michigan's basic financial statements. The other supplemental information, including combining and individual nonmajor fund financial statements, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 December 29, 2023 on our consideration of The City of Pontiac internal control over financial reporting and 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 of Pontiac internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Pontiac internal control over financial reporting and compliance.

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
December 29, 2023

CITY OF PONTIAC, MICHIGAN

Management's Discussion and Analysis

Our discussion and analysis of the City of Pontiac, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the City's financial statements.

Financial Highlights

- Total net position (deficit) \$326,117,001
- Change in total net position \$9,551,464
- Fund balances, governmental funds \$73,385,390
- Change in fund balances, governmental funds \$18,823,287
- Unassigned fund balance, general fund \$31,876,846
- Change in fund balance, general fund \$16,704,225
- Long-term debt outstanding \$8,820,480
- Change in long-term debt \$(1,169,738)

Overview of the Financials 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 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

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

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 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.

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 2022-23. The City Council of the City of Pontiac adopted the 2022-23 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

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

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.

Government-wide Overall Financial Analysis

The following table shows, in a condensed format, the net position as of June 30, 2023, as compared to the prior year:

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$253,785,024	\$418,870,840	\$ 1,885,677	\$ 4,300,063	\$255,670,701	\$423,170,903
Capital assets, net	90,293,602	94,254,883	7,774,083	8,367,754	98,067,685	102,622,637
Total assets	<u>344,078,626</u>	<u>513,125,723</u>	<u>9,659,760</u>	<u>12,667,817</u>	<u>353,738,386</u>	<u>525,793,540</u>
Deferred outflows	<u>39,424,320</u>	<u>2,496,606</u>	<u>-</u>	<u>-</u>	<u>39,424,320</u>	<u>2,496,606</u>
Liabilities						
Current and other liabilities	51,098,661	106,328,875	(191,005)	411,041	50,907,656	106,739,916
Long-term debt outstanding	8,820,480	9,990,218	-	-	8,820,480	9,990,218
Total liabilities	<u>59,919,141</u>	<u>116,319,093</u>	<u>(191,005)</u>	<u>411,041</u>	<u>59,728,136</u>	<u>116,730,134</u>
Deferred inflows	<u>7,267,077</u>	<u>94,134,260</u>	<u>50,492</u>	<u>860,215</u>	<u>7,317,569</u>	<u>94,994,475</u>
Net position:						
Net investment in capital assets	90,293,602	94,197,605	7,774,083	8,367,754	98,067,685	102,565,359
Restricted	125,748,941	281,446,893	1,460,182	3,077,390	127,209,123	284,524,283
Unrestricted (deficit)	100,274,185	(70,475,522)	566,008	(48,583)	100,840,193	(70,524,105)
Total net position	<u>\$316,316,728</u>	<u>\$305,168,976</u>	<u>\$ 9,800,273</u>	<u>\$ 11,396,561</u>	<u>\$326,117,001</u>	<u>\$316,565,537</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 \$326,117,001 at the close of the most recent fiscal year. \$98,067,685 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, \$127,209,123, represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted balance of \$100,840,193.

The City's overall net position increased by \$9,551,464 from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities and business-type activities.

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

Governmental activities. During the current fiscal year, net position for governmental activities increased by \$11,147,752 from the prior fiscal year for an ending balance of \$316,316,728. This decrease is primarily due to a mixture of lower revenues than anticipated and higher expenses. Other significant changes include:

- Operating grants increased from the prior year by \$15,456,679 primarily due to the City scheduling \$10.0 million of American Rescue Plan Act (ARPA) funds for revenue replacement as allowed by the terms of the grant.
- Capital grants decreased from the prior year by \$205,705 primarily due to the City receiving approximately \$3.2 million in State grant funds in the prior year for road construction and improvements.
- Income tax revenue increased from the prior year by \$1,571,503 primarily due to continued success of developments in the city including the Amazon Warehousing Complex, United Wholesale Mortgage, and construction projects.
- Other general revenues decreased from the prior year by \$7,875,718. This is due to \$8,000,000 of funding received in the prior year from the general employees' retirement system to make payments to eligible retirees who chose to opt out of healthcare benefits.
- General government expenses increased from the prior year by \$25,851,361 primarily due to a large increase in pension expense related to the general employees' pension asset.
- Public safety expenses decreased from the prior year by \$41,232,516 primarily due to a large decrease 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 \$1,596,288 from the prior fiscal year for an ending balance of \$9,800,273. Activity in the parking fund was minimal during the year. Expenses increased \$1,734,355 primarily due to a large increase in pension expense related to the general employees' pension asset.

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

The following table shows the changes of the net position during the current year ended June 30, 2023, as compared to the prior year:

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Program revenues:						
Charges for services	\$ (24,679,193)	\$ 5,578,882	\$ -	\$ -	\$ (24,679,193)	\$ 5,578,882
Operating grants	30,574,549	15,117,870	-	-	30,574,549	15,117,870
Capital grants	-	205,705	-	-	-	205,705
General Revenues:						
Property taxes	17,307,474	13,220,824	-	-	17,307,474	13,220,824
Income Taxes	19,078,741	17,507,238	-	-	19,078,741	17,507,238
Unrestricted state revenues	12,281,418	12,054,330	-	-	12,281,418	12,054,330
Unrestricted investment earnings (loss)	3,278,878	(371,517)	104,519	(89,736)	3,383,397	(461,253)
Cable franchise fees	451,253	502,488	-	-	451,253	502,488
Other general revenues	194,282	8,070,000	-	-	194,282	8,070,000
Total revenues	58,487,403	71,885,820	104,519	(89,736)	58,591,922	71,796,084
Expenses:						
General government	17,968,533	(7,882,828)	-	-	17,968,533	(7,882,828)
Public safety	4,030,065	45,262,581	-	-	4,030,065	45,262,581
Public works	22,911,630	13,147,525	-	-	22,911,630	13,147,525
Community development	168,821	1,216,477	-	-	168,821	1,216,477
Community and human services	698,747	492,176	-	-	698,747	492,176
Recreation and culture	1,246,023	1,227,961	-	-	1,246,023	1,227,961
Interest on long-term debt	315,832	447,601	-	-	315,832	447,601
Parking	-	-	1,700,806	(33,549)	1,700,806	(33,549)
Total expenses	47,339,652	53,911,493	1,700,806	(33,549)	49,040,458	53,877,944
Change in net position	11,147,752	17,974,327	(1,596,288)	(56,187)	9,551,464	17,918,140
Net position:						
Beginning of year	305,168,976	287,194,649	11,396,561	11,452,748	316,565,537	298,647,397
End of year	\$ 316,316,728	\$ 305,168,976	\$ 9,800,273	\$ 11,396,561	\$ 326,117,001	\$ 316,565,537

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,

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

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, 2023, the City's governmental funds reported combined fund balances of \$73,385,390, an increase of \$18,823,287 in comparison with the prior year. Approximately 43% of this amount, \$31,876,846, 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 (\$166,702), 2) restricted for particular purposes (\$33,169,375), 3) committed for particular purposes (\$3,200,000), or 4) assigned for particular purposes (\$4,972,467).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$31,876,846, while total fund balance increased to \$40,215,017. 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 76% of the total general fund expenditures, while total fund balance represents approximately 96% of that same amount.

The fund balance of the City's general fund for fiscal year 2023 was \$40,215,017, an increase of \$16,704,225 from the prior fiscal year. A large portion of this is the \$10.0 million of ARPA funds being scheduled as revenue replacement. The additional change is a result of underestimated earnings and overestimated expenses. A good portion of the earnings estimate was under because of the federal reserve policy that held interest rates higher than expected and thus greatly increased income in that area. The overestimated expenses are a result of not being able to fill positions (thus lower expense) and as a result, not being able to complete all of our allotted projects (even lower expenses).

The major streets fund had a decrease of \$895,002 in fund balance during the current fiscal year, which decreased the overall fund balance to \$5,743,711. This decrease was largely due to projects that had been delayed from the previous fiscal year.

The Progress for Pontiac fund was established towards the end of the prior fiscal year. This fund was created to receive and expend funds from the federal American Rescue Plan that was enacted in 2021. In total, the city received approximately \$37.7 million. Approximately \$18.9 million was received in this fiscal year. Approximately \$10.5 million was spent this fiscal year.

The VEBA retiree healthcare opt out fund had an ending fund balance of \$3,840,000. \$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, 2023, \$4,160,000 was dispersed through that fund.

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

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 \$7,117,749 which is mostly due to investment income exceeding final budget estimates by \$2,758,549 and property tax revenue exceeding final budget estimates by \$2,409,989. Additionally, income taxes came in \$1,840,181 over budget.
- Total expenditures came in \$3,771,096 less than budgeted. Significant savings resulted from less than anticipated expenditures for the following:
 - The general government function was less than anticipated. Expenditures were \$1,706,235 less than budget mainly due to unfilled positions.
 - Public safety function came in \$88,926 more than budget mainly due to final overtime expenses being higher than projected and increased contractual costs.
 - Public works function was \$853,534 less than budget mainly due to vacant positions and projects that were not able to be completed.
 - Community and economic development function was \$485,916 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 \$952,302 less than budget, mainly due to ending a lease on a facility. Additionally, as a result of ending that lease, the city made the intentional decision to reduce expenditures in that area so that there would be funds available to make payments on a new building in the future.
 - Principal and interest and fiscal charges came in \$58,333 more than budget due to the City not budgeting for the payments related to leased property.

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

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, 2023, amounts to \$98,067,685 (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 (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 25,105,058	\$ 25,105,058	\$ 3,042,537	\$ 3,042,537	\$ 28,147,595	\$ 28,147,595
Construction in progress	3,059,981	3,131,381	-	688,127	3,059,981	3,819,508
Streets and bridges	58,722,651	63,018,558	-	-	58,722,651	63,018,558
Buildings and improvements	1,883,017	2,088,323	4,731,546	4,637,090	6,614,563	6,725,413
Machinery and equipment	1,329,432	618,266	-	-	1,329,432	618,266
Vehicles	32,966	98,895	-	-	32,966	98,895
Land improvements	160,497	132,631	-	-	160,497	132,631
Leased building	-	61,771	-	-	-	61,771
Total assets	<u>\$ 90,293,602</u>	<u>\$ 94,254,883</u>	<u>\$ 7,774,083</u>	<u>\$ 8,367,754</u>	<u>\$ 98,067,685</u>	<u>\$102,622,637</u>

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 \$8,820,480.

The City's total indebtedness decreased by \$1,169,738 during the current fiscal year primarily due to a \$789,211 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.

Economic Factors

During the last fiscal year, the city did a lot of rebuilding and restructuring. Departments and divisions were reconfigured, and many new hires were made. Some as part of bringing services back in-house and some as building out new divisions. There is still a lot to be done in the area of rebuilding. Areas that are under specific focus for the upcoming fiscal year are Finance, Parks and Recreation, and Community Development (specifically code enforcement and economic development). In each area, we will be doing deep dives into the policies and procedures of the department and/or division and the workforce alignment to the organization's goals. This is a

CITY OF PONTIAC, MICHIGAN
Management's Discussion and Analysis
(Continued)

continued focus on the city providing better service delivery to ultimately increase customer satisfaction and thereby increase revenues.

As with previous years, the City's largest source of revenue is local income tax which 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 forecasted last year, the Headlee override provided a good boost to city income and property valuations continue to increase. There are no signs in the economy that a large downturn is coming. There are on the contrary several large projects that are anticipated to make announcements in 2024 for groundbreakings in 2025. These include residential and commercial and/or industrial projects. In addition, the Pontiac School District received a larger grant from the State of Michigan to reduce debt. This should allow the schools to make necessary changes to bring back more students, which will in turn increase the value of property in the city and have a positive effect on overall tax capture.

The City remains cautiously optimistic about the overall economic factors.

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.

City of Pontiac
Statement of Net Position
June 30, 2023

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 72,890,070	\$ 375,003	\$ 73,265,073	\$ 567,860
Receivables, net	15,059,722	-	15,059,722	-
Other assets	7,253,158	-	7,253,158	-
Restricted assets	29,315,008	-	29,315,008	-
Capital assets - non-depreciating	28,165,039	3,042,537	31,207,576	-
Capital assets - depreciating/amortizing, net	62,128,563	4,731,546	66,860,109	-
Net pension asset	129,267,066	1,510,674	130,777,740	-
Total Assets	344,078,626	9,659,760	353,738,386	567,860
Deferred outflows of resources				
Deferred charge on refunding	-	-	-	341,138
Deferred pension amounts	39,424,320	-	39,424,320	-
Total deferred outflows of resources	39,424,320	-	39,424,320	341,138
Liabilities				
Accounts payable and accrued liabilities	14,072,866	10,099	14,082,965	120,363
Unearned revenue	28,329,302	-	28,329,302	-
Lease payable (due within one year)	-	-	-	-
Long-term liabilities:				
Due within one year	1,301,511	-	1,301,511	1,715,000
Due in more than one year	7,518,969	-	7,518,969	11,350,000
Financial guarantee	-	-	-	7,293,668
Net pension liability (due in more than one year)	44,711,281	-	44,711,281	-
Net other postemployment benefit liability (due in more than one year)	(36,014,788)	(201,104)	(36,215,892)	-
Total Liabilities	59,919,141	(191,005)	59,728,136	20,479,031
Deferred inflows of resources				
Deferred pension amounts	5,815,178	50,492	5,865,670	-
Deferred other postemployment benefit amounts	-	-	-	-
Deferred lease amounts	1,451,899	-	1,451,899	-
Total deferred inflows of resources	7,267,077	50,492	7,317,569	-
Net position				
Net invested in capital assets	90,293,602	7,774,083	98,067,685	-
Restricted for:				
Roads	7,486,990	-	7,486,990	-
Healthcare payouts	3,840,000	-	3,840,000	-
Drug enforcement	209,026	-	209,026	-
Capital projects	4,344,341	-	4,344,341	-
Sanitation	8,804,595	-	8,804,595	-
Senior activities	865,342	-	865,342	-
Community development	30,460	-	30,460	-
Home buyers association	27,360	-	27,360	-
Youth recreation	1,757,311	-	1,757,311	-
Cable television	893,465	-	893,465	-
Telecommunications	23,222	-	23,222	-
Building inspection	3,167,441	-	3,167,441	-
Pension benefits	94,299,388	1,460,182	95,759,570	-
Unrestricted (Deficit)	100,274,185	566,008	100,840,193	(19,570,033)
Total net position (deficit)	\$ 316,316,728	\$ 9,800,273	\$ 326,117,001	\$ (19,570,033)

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

City of Pontiac
Statement of Activities
Year Ended June 30, 2023

Functions/programs	Net (Expense) Revenue and Changes in Net Postiton							
	Expenses	Program Revenue			Primary Government			Component Unit
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities:								
General government	\$ 17,968,533	\$ (45,035,757)	\$ 7,969,967	\$ -	\$ (55,034,322)	\$ -	\$ (55,034,322)	\$ -
Public safety	4,030,065	372,277	2,018,018	-	(1,639,770)	-	(1,639,770)	-
Public works	22,911,630	19,764,137	9,565,810	-	6,418,317	-	6,418,317	-
Community development	168,821	211,409	10,773,638	-	10,816,227	-	10,816,227	-
Community and human services	698,747	-	202,841	-	(495,906)	-	(495,906)	-
Recreation and culture	1,246,023	8,741	44,275	-	(1,193,007)	-	(1,193,007)	-
Interest on long-term debt	315,832	-	-	-	(315,832)	-	(315,832)	-
Total Governmental Activities	47,339,652	(24,679,193)	30,574,549	-	(41,444,294)	-	(41,444,294)	-
Businesss-type activities:								
Parking Fund	1,700,806	-	-	-	-	(1,700,806)	(1,700,806)	-
Total primary government	\$ 49,040,458	\$ (24,679,193)	\$ 30,574,549	\$ -	\$ (41,444,294)	\$ (1,700,806)	\$ (43,145,101)	\$ -
Component units:								
Tax Increment Financing Authority	\$ 1,497,002	\$ 50,000	\$ 767,201	\$ -	\$ -	\$ -	\$ -	\$ (679,801)
Brownfield Redevelopment Authority	-	-	-	-	-	-	-	-
	\$ 1,497,002	\$ 50,000	\$ 767,201	\$ -	\$ -	\$ -	\$ -	\$ (679,801)
General Revenues:								
					17,307,474	-	17,307,474	1,713,679
					19,078,741	-	19,078,741	-
					12,281,418	-	12,281,418	160,437
					3,278,878	104,519	3,383,397	-
					451,253	-	451,253	-
					194,282	-	194,282	-
					52,592,047	104,519	52,696,565	1,874,116
Change in net position					11,147,752	(1,596,288)	9,551,464	1,194,315
Net position, beginning of year					305,168,976	11,396,561	316,565,537	(20,764,348)
Net position, end of year					\$ 316,316,728	\$ 9,800,273	\$ 326,117,001	\$ (19,570,033)

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

**City of Pontiac
Balance Sheet
Governmental Funds
June 30, 2023**

	General Fund	Major Streets Fund	Progress for Pontiac Fund	VEBA Retiree Healthcare Opt-out	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 40,057,846	\$ 5,967,569	\$ -	\$ 3,840,000	\$ 20,576,448	\$ 70,441,863
Accounts receivable, net	422,439	135,110	-	-	471,160	1,028,709
Taxes receivable, net	6,481,879	-	-	-	921,625	7,403,504
Leases receivable	1,451,899	-	-	-	-	1,451,899
Interest receivable	395,485	6,000	-	-	89,522	491,007
Due from other governments	2,204,716	1,125,167	-	-	342,003	3,671,886
Due from other funds	6,113,592	-	-	-	1,368,005	7,481,597
Prepays	165,704	-	-	-	998	166,702
Restricted assets	-	-	27,240,013	-	2,074,995	29,315,008
Total Assets	\$ 57,293,560	\$ 7,233,846	\$ 27,240,013	\$ 3,840,000	\$ 25,844,756	\$ 121,452,175
Liabilities, deferred inflows of resources and fund balances						
Liabilities						
Accounts payable	\$ 6,342,438	\$ 1,433,109	\$ 1,656	\$ -	\$ 1,021,547	\$ 8,798,750
Accrued wages	392,833	5,576	1,159	-	86,042	485,610
Unearned revenue	106,643	-	27,237,198	-	985,461	28,329,302
Due to other governments	887,210	-	-	-	21,145	908,355
Due to other funds	1,368,005	-	-	-	-	1,368,005
Deposits payable	2,716,687	-	-	-	85,335	2,802,022
Total Liabilities	11,813,816	1,438,685	27,240,013	-	2,199,530	42,692,044
Deferred inflows of resources						
Unavailable revenue - taxes and due from other governments	3,812,828	51,450	-	-	58,564	3,922,842
Deferred lease amounts	1,451,899	-	-	-	-	1,451,899
Total deferred inflows of resources	5,264,727	51,450	-	-	58,564	5,374,741
Fund Balances						
Nonspendable	165,704	-	-	-	998	166,702
Restricted	-	5,743,711	-	3,840,000	23,585,664	33,169,375
Committed	3,200,000	-	-	-	-	3,200,000
Assigned	4,972,467	-	-	-	-	4,972,467
Unassigned	31,876,846	-	-	-	-	31,876,846
Total Fund Balances	40,215,017	5,743,711	-	3,840,000	23,586,662	73,385,390
Total liabilities, deferred inflows of resources and fund balances	\$ 57,293,560	\$ 7,233,846	\$ 27,240,013	\$ 3,840,000	\$ 25,844,756	\$ 121,452,175

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

City of Pontiac
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2023

Total Governmental Fund Balances \$ 73,385,390

Amounts reported for governmental activities in the statement of
net position are different because:

Capital assets used in governmental activities are
financial resources and are not reported in the funds

Capital assets not being depreciated	28,165,039
Capital assets being depreciated, net	62,128,563

Because the focus of the 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.

3,922,841

Certain pension and other postemployment benefit related amounts, such as
the net pension liability 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	(44,711,281)
Net pension asset	129,267,066
Net other postemployment benefit liability	36,014,788
Deferred outflows related to net pension asset and liability	15,558,781
Deferred outflows related to net other postemployment benefit liability	23,865,539
Deferred inflows related to net pension asset and liability	(5,815,178)
Deferred inflows related to net other postemployment benefit liability	-

Internal service funds are used by management to charge the costs of certain
activities, such as insurance, to individual funds. The assets and liabilities
of the internal service funds are included in governmental activities in the
statement of net position.

2,534,426

Long term liabilities are not due and payable in the current period, and
therefore are not recorded in the funds

Leases payable	-
Financial guarantee	(702,648)
Lawsuit settlement	(4,972,467)
Landfill closure and postclosure costs	(2,324,131)

Net position of governmental activities

\$ 316,316,728

City of Pontiac
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2023

	General Fund	Major Highway Fund	Progress for Pontiac Fund	VEBA Retiree Healthcare Opt-out	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes and special assessments	\$ 11,654,255	\$ -	\$ -	\$ -	\$ 5,653,219	\$ 17,307,474
Income taxes	19,195,736	-	-	-	-	19,195,736
Federal	290,483	24,219	10,480,756	-	204,629	11,000,087
State	12,479,232	6,634,918	-	-	2,290,778	21,404,928
Charges for services	1,278,998	-	-	-	4,073,345	5,352,343
Fines and forfeitures	22,948	-	-	-	976,705	999,653
Licenses and permits	117,825	-	-	-	1,763,585	1,881,410
Other	2,354,330	632,129	-	-	973,003	3,959,462
Total Revenues	47,393,807	7,291,266	10,480,756	-	15,935,264	81,101,093
Expenditures						
Current:						
General government	7,116,445	-	-	160,000	885,586	8,162,031
District court	-	-	-	-	2,848,481	2,848,481
Public safety	24,904,574	-	-	-	1,902,143	26,806,717
Public works	3,178,113	8,262,137	480,756	-	6,558,597	18,479,603
Community and economic development	958,032	-	-	-	-	958,032
Community and human services	-	-	-	-	693,247	693,247
Recreation and culture	606,033	-	-	-	685,473	1,291,506
Retiree fringe benefits	3,948,636	-	-	-	-	3,948,636
Debt Payments:						-
Principal	663,700	-	-	-	-	663,700
Lease Principal	57,278	-	-	-	-	57,278
Interest and fiscal charges	315,832	-	-	-	-	315,832
Capital Outlay	-	-	-	-	940,776	940,776
Total Expenditures	41,748,643	8,262,137	480,756	160,000	14,514,303	65,165,839
Revenues Over (Under) Expenditures	5,645,164	(970,871)	10,000,000	(160,000)	1,420,961	15,935,254
Other Financing Sources (Uses)						
Investment income (loss)	3,144,949	75,869	-	-	434,416	3,655,234
Transfers In	11,598,116	-	-	-	2,318,071	13,916,187
Transfers Out	(3,684,004)	-	(10,000,000)	-	(999,384)	(14,683,388)
Total Other Financing Sources (Uses):	11,059,061	75,869	(10,000,000)	-	1,753,103	2,888,033
Net Change in Fund Balance	16,704,225	(895,002)	-	(160,000)	3,174,064	18,823,287
Fund Balances:						
Beginning of Year	23,510,792	6,638,713	-	4,000,000	20,412,598	54,562,103
End of Year	\$ 40,215,017	\$ 5,743,711	\$ -	\$ 3,840,000	\$ 23,586,662	\$ 73,385,390

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

City of Pontiac
Reconciliation of Net Changes in Fund Balances of Governmental Funds
to Changes in Net Position of Governmental Activities
Year Ended June 30, 2023

Net change in fund balances total governmental funds	18,823,287
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.

These costs are allocated over their estimated useful lives as depreciation. Losses and gains on disposals of assets are not used in governmental funds.

Capital outlay	2,388,179
Depreciation expense	(6,349,460)

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.	316,339
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Bond and lease 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	663,700
Principal payments on leases	57,278

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 pension liability and related deferred amounts	(133,947,335)
Change in net other postemployment benefit obligation and related deferred amounts	129,425,755
Change in financial guarantee	789,211
Change in landfill closure and postclosure liability	1,523
Change in accrued interest payable on bonds and capital leases	
Amortization of bond discount	
Change in the accrual for compensated absences	

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 the governmental activities.

(1,020,725)

Change in net position of governmental activities	11,147,752
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The accompanying notes are an integral part of the financial statements.

City of Pontiac
Statement of Net Position
Proprietary Funds
June 30, 2023

	Business-type Activities Parking Enterprise Fund	Governmental Activities Internal Service Funds
Assets		
Current Assets:		
Cash and investments	\$ 375,003	\$ 2,448,207
Accounts receivable	-	1,012,718
Prepays	-	7,086,456
Total Current Assets	<u>375,003</u>	<u>10,547,381</u>
Noncurrent assets:		
Capital assets - non-depreciating	3,042,537	-
Capital assets - depreciating, net	4,731,546	-
Net pension asset	1,510,674	
Total Noncurrent Assets	<u>9,284,757</u>	<u>-</u>
Total Assets	<u>9,659,760</u>	<u>10,547,381</u>
Liabilities		
Current Liabilities:		
Accounts payable	10,099	36,168
Accrued liabilities	-	1,041,961
Due to other funds	-	6,113,592
Current portion of compensated absences	-	205,309
Total Current Liabilities	<u>10,099</u>	<u>7,397,030</u>
Noncurrent Liabilities:		
Total other postemployment benefit liability	(201,104)	-
Compensated absences, net of current portion	-	615,925
Total Noncurrent Liabilities	<u>(201,104)</u>	<u>615,925</u>
Total Liabilities	<u>(191,005)</u>	<u>8,012,955</u>
Deferred inflows of resources		
Deferred pension amounts	<u>50,492</u>	<u>-</u>
Net position		
Investment in capital assets	7,774,083	-
Restricted for pension benefits	1,460,182	-
Unrestricted	<u>566,008</u>	<u>2,534,426</u>
Total net position	<u>\$ 9,800,273</u>	<u>2,534,426</u>

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

City of Pontiac
Statement of Revenues, Expenses
And Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2023

	Business-type Activities <u>Parking</u> <u>Enterprise Fund</u>	Governmental Activities <u>Internal</u> <u>Service Funds</u>
Operating revenues		
Charges for services	\$ -	\$ 4,575,325
Other revenue	-	777,792
Total operating revenues	<u>-</u>	<u>5,353,117</u>
 Operating expenses		
Insurance	-	6,136,444
Operating and Maintenance Costs	1,107,134	-
Workers' Compensation	-	237,398
Depreciation	593,672	-
Total operating expenses	<u>1,700,806</u>	<u>6,373,842</u>
 Net operating income (loss)	<u>(1,700,806)</u>	<u>(1,020,725)</u>
 Nonoperating revenues (expenses):		
Investment income (loss)	104,519	-
Total nonoperating revenues (expenses)	<u>104,519</u>	<u>-</u>
 Change in net position	 (1,596,288)	 (1,020,725)
 Net position, beginning of year	 <u>11,396,561</u>	 <u>3,555,151</u>
 Net position, end of year	 <u>\$ 9,800,273</u>	 <u>\$ 2,534,426</u>

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

City of Pontiac
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2023

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows provided by (used in) operating activities		
Cash provided by operations	\$ 118,157	\$ -
Cash payments to suppliers for goods and services	-	(5,127,563)
Cash received from interfund services	-	5,353,288
Net cash provided by (used in) operating activities	<u>118,157</u>	<u>225,725</u>
Cash flows from investing activities		
Investment income	(104,519)	-
Net cash provided (used) by investing activities	<u>(104,519)</u>	<u>-</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	-	-
Net cash (used) for capital and related financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and investments	13,638	225,725
Cash and investments, beginning of year	<u>361,366</u>	<u>2,222,481</u>
Cash and investments, end of year	<u><u>\$ 375,004</u></u>	<u><u>\$ 2,448,207</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,491,769)	\$ (1,020,725)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation & Amortization expense	593,672	-
Changes in assets and liabilities:		
Accounts receivable, net	1,092	493,265
Prepays	-	(1,025,249)
Net pension asset	2,426,931	-
Accounts payable	(1,319)	(184,494)
Accrued liabilities	-	662,768
Total other postemployment benefit liability	(600,727)	-
Due to other funds	-	2,153,298
Interfund payable	-	(1,137,834)
Accrued compensated absences	-	284,696
Deferred inflows of resources related to the pension asset	(809,724)	-
Net cash provided (used) by operating activities	<u><u>\$ 118,157</u></u>	<u><u>\$ 225,725</u></u>

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

City of Pontiac
Statement of Net Position
Fiduciary Funds
June 30, 2023

	Pension & OPEB	Custodial
	Trust Funds	Funds
Assets		
Cash and cash equivalents	\$ 10,888,523	\$ 61,370
Investments at fair value or net asset value:	-	-
U.S. government securities	5,566,970	-
Common stocks	261,590,356	-
Corporate bonds	26,389,553	-
Mutual funds	40,890,559	-
Money market funds	1,278,072	-
Government bonds	19,460,280	-
Municipal and provincial bonds	33,940,198	-
Government agency notes	9,851,675	-
U.S. government mortgage-backed securities	26,028,649	-
U.S. collateralized mortgage obligations	4,705,423	-
Residential and other asset-backed securities	6,178,984	-
Collateralized mortgage obligations	1,859,928	-
Short-term investments	23,548,592	-
International equities	11,005,359	-
Private equity funds	67,890,629	-
Commingled funds:		
Domestic	34,429,162	-
International	27,557,267	-
Real estate funds	73,888,924	-
Registered investment companies	18,194,887	-
Collective trust funds	8,420,214	-
Limited partnerships	27,281,421	-
Accrued interest receivable	1,350,702	-
Other receivables	749,402	-
Due from Police and Fire Retirement System VEBA	38,997,371	-
Accounts receivable	-	2,535
Total Assets	781,943,100	63,905
Liabilities		
Accounts payable and other	1,523,311	-
Due to City of Pontiac	412,616	-
Due to City of Pontiac Police and Fire Retirement System	84,503	-
Due to City of Pontiac VEBA Trust	1,000,000	-
Deposits payable	-	63,905
Total Liabilities	3,020,430	63,905
Net Position Restricted For		
Pension benefits	631,793,241	-
Other postemployment benefits	147,129,429	-
Total net position	\$ 778,922,670	\$ -

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

City of Pontiac
Statement of Change in Net Position
Fiduciary Funds
June 30, 2023

	Pension & OPEB Trust Funds	Custodial Funds
Additions		
Investment income:		
Net increase (decrease) in fair value of investments	\$ (101,094,828)	\$ -
Interest and dividends	12,671,091	-
Less: investment related expenses	(3,429,471)	-
	<hr/>	<hr/>
Net investment income	(91,853,208)	-
Contributions - Employer	3,709,236	-
Taxes collected for other governments	-	29,240,303
Court collections	-	803,390
Plan-to-plan resource movement	443,006,450	-
Miscellaneous and litigation revenue	72,258	-
	<hr/>	<hr/>
Total Additions	354,934,736	30,043,694
	<hr/>	<hr/>
Deductions		
Participant benefit payments	46,999,151	-
Administrative expenses	1,614,822	-
Transfers to City of Pontiac	76,096,372	-
Payments of taxes to other governments	-	29,240,303
Insurance premiums	3,195,286	-
Opt out benefit payments	200,000	-
Plan-to-plan resource movement	443,006,450	-
Court distributions	-	803,390
	<hr/>	<hr/>
Total Deductions	571,112,081	30,043,694
	<hr/>	<hr/>
Change in Net Position	(216,177,345)	-
	<hr/>	<hr/>
Net Position, Beginning of Year	995,100,015	-
	<hr/>	<hr/>
Net Position, End of Year	<u><u>\$ 778,922,670</u></u>	<u><u>\$ -</u></u>

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

City of Pontiac
Combining Statement of Net Position
Discretely Presented Component Units
June 30, 2023

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	\$ 249,227	\$ 318,633	\$ 567,860
Receivables, net	-	-	-
Total Assets	<u>249,227</u>	<u>318,633</u>	<u>567,860</u>
Deferred Outflows of Resources			
Deferred charge on refunding	<u>341,138</u>	<u>-</u>	<u>341,138</u>
Liabilities			
Accounts payable and accrued liabilities	101,709	18,654	120,363
Long-term liabilities			
Due within one year	1,715,000	-	1,715,000
Due in more than one year	11,350,000	-	11,350,000
Financial guarantee	<u>7,293,668</u>	<u>-</u>	<u>7,293,668</u>
Total Liabilities	<u>20,460,377</u>	<u>18,654</u>	<u>20,479,031</u>
Net Position			
Unrestricted (Deficit)	<u>\$ (19,870,012)</u>	<u>\$ 299,979</u>	<u>\$ (19,570,033)</u>

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

City of Pontiac
Combining Statement of Activities
Discretely Presented Component Units
For the Year Ended June 30, 2023

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Financial guarantee	\$ 767,201	\$ -	\$ 767,201
Interest on long-term debt	729,801	-	729,801
Total Expenses	1,497,002	-	1,497,002
Program Revenues			
Charges for Services	50,000	-	50,000
Operating Grants and Contributions	767,201	-	767,201
Total Program Revenues	817,201	-	817,201
Net Program Expense	(679,801)	-	(679,801)
General Revenues			
Property Taxes	1,710,295	3,384	1,713,679
Unrestricted State Revenues	160,437	-	160,437
Total General Revenues	1,870,732	3,384	1,874,116
Change in Net Position	1,190,931	3,384	1,194,315
Net Position (Deficit), Beginning of Year	(21,060,943)	296,595	(20,764,348)
Net Position (Deficit), End of Year	<u>\$ (19,870,012)</u>	<u>\$ 299,979</u>	<u>\$ (19,570,033)</u>

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

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023

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 Unit

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 using 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.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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 (RGERS and VEBA TRUST) 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) - In March 2021, the Internal Revenue Service approved the City's request to terminate the GERS and establish a new plan, the RGERS. All participants in the GERS were transferred to RGERS and there are no participants in the GERS as of December 31, 2022.

The *Reestablished General City Employees' Retirement System* (RGERS) (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.

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 *City of Pontiac VEBA Trust* (VEBA TRUST) was established as an irrevocable group health and insurance trust fund for health, optical, and dental insurance benefits for retirees and vested deferred retirees, and their eligible spouses and dependents, who were eligible for health insurance coverage from the City as of December 22, 2011.

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, 2023, except for the pension and OPEB trust funds (with the exception of the new VEBA Trust) included in fiduciary component units, which are shown for the year ended December 31, 2022.

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

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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.

Funds 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
June 30, 2023
(Continued)

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.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

Pension and OPEB trust funds. The pension and other postemployment benefits trust funds accounts for the activities of the General Employees' Retirement System, Reestablished Employees' Retirement System, Police and Fire Retirement System, VEBA Trust, 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.

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 2022 tax is levied and collectible on July 1, 2022 and is recognized as revenue in the year ended June 30, 2023, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2022 taxable valuation of the City totaled approximately \$1,136 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 10.9132 mills for operating purposes, 2.1900 mills for refuse collection and

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

disposal, 1.3639 mills for capital improvement, 1.4519 for youth recreation, and 0.4839 mill for senior activities. This resulted in \$8.81 million for operating, \$2.07 million for refuse collection and disposal, \$1.10 million for capital improvement, \$1.21 million for youth recreation, and \$0.39 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, Deferred Outflows of Resources, Liabilities, and 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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter fund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Prepaid Items

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

Restricted Cash

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.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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:

	<u>Years</u>
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.

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 non-cancellable period of the lease. Lease payments included in the measurement of the lease

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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 non-cancellable 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.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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.

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.

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

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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.

Fund Balances

Governmental funds report non-spendable 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.

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.

New and Upcoming Accounting Standards

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were effective for the City's financial statements and implemented by the City for the June 30, 2021 fiscal year.

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The City has no majority equity interest in a legally separate organization at this time that would cause the use of Statement No. 90.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. 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. The City has evaluated the impact of the new standard and concluded that the City currently does not have any conduit debt obligations.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to bring uniform guidance on how to report public-private and public-public partnership arrangements. As a result, transferors in public-private or public-public arrangements will recognize receivables for installment payments; deferred inflows of resources; and, when applicable, capital assets. Operators will recognize liabilities for installment payments and intangible right-to-use assets and, when applicable, deferred outflows of resources and liabilities for assets being transferred. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange or exchange-like transaction. The City has evaluated the impact of the new standard and concluded that the City has reported its public or private partnership in accordance with the new standard.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a

City of Pontiac, Michigan
Notes to Financial Statements
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subscription liability and an intangible right-to-use subscription asset for SBITAs. The City has evaluated the impact of the new leasing standard and concluded that the City currently does not have any SBITA agreements that would require recording a lease liability and a right-to-use lease asset.

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or another employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the City's financial statements for the year ending June 30, 2022. The City has evaluated the provisions of Statement No. 97 that relate to 457 plans and concluded that the 457 plans are reported in accordance with the new standard.

In June 2022, the Governmental Accounting Standards Board issued Statement No. 100, Accounting Changes and Error Corrections. This standard clarifies the presentation and disclosure requirements for prior period adjustments to beginning net position. The provisions of this standard are effective for the City's financial statements for the year ending June 30, 2024.

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, Compensated Absences. 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. The provisions of this standard are effective for the City's financial statements for the year ending June 30, 2024.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Construction Code Fees

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

City of Pontiac, Michigan
Notes to Financial Statements
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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, 2023 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 amount 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, 2023 the City incurred expenditures in excess of the amounts appropriated as follows:

	Amended Budget		Actual		Over Budget
General fund					
Public safety	\$ 24,815,648	\$	24,904,574	\$	88,926
Retiree fringe benefits	3,869,003		3,948,636		79,633
Lease principal	-		57,278		57,278
Interest	314,777		315,832		1,055

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, 2023:

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of net position			
Cash and investments	\$ 73,265,073	\$ 567,860	\$ 73,832,933
Restricted assets	29,315,008	-	29,315,008
 Statement of fiduciary net position			
Cash and cash equivalents	10,888,523	-	10,888,523
Investments	<u>729,957,102</u>	<u>-</u>	<u>729,957,102</u>
 Total	 <u><u>\$ 843,425,706</u></u>	 <u><u>\$ 567,860</u></u>	 <u><u>\$ 843,993,566</u></u>
 Bank deposits (demand accounts and certificates of deposit due within one year)			\$ 79,250,004
Investments in securities, mutual funds and similar vehicles:			
Oakland County Local Government Investment Pool (LGIP)			11,020,926
Money Markets			12,874,511
General Employee's Retirement System			51,309,497
Reestablished General Employee's Retirement System			381,549,561
Police and Fire Retirement System			198,264,262
VEBA Trust			71,314,200
Police and Fire Retirement System VEBA			38,408,105
Cash on hand			<u>2,500</u>
			 <u><u>\$ 843,993,566</u></u>

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

The pension and other 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

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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, Reestablished General Employees' Retirement System, Police and Fire Retirement System, City of Pontiac VEBA Trust and Police and Fire Retirement System VEBA balances as of December 31, 2022 because these funds are maintained on a calendar year basis. Except for the new VEBA Trust, whose balances are maintained as of June 30, 2023.

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 \$77,704,751 of bank deposits (certificates of deposit, checking, and savings accounts) of which \$1,500,000 was covered by federal deposit insurance and \$2,074,996 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 and Reestablished General Employees' Retirement System - The GERS and RGERS don't have a deposit policy for custodial credit risk. At year end, the GERS and RGERS had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The GERS and RGERS continue 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 \$6,054,558 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.

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

City of Pontiac VEBA Trust - The VEBA TRUST does not have a deposit policy for custodial credit risk. At year end, the VEBA TRUST had \$3,815,620 (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

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.

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, 2023, 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's policy. At year end, the average maturities of investments are as follows:

Investment	Fair value	Weighted Average Maturity (years)
Oakland County LGIP	\$ 11,020,926	1.8

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:

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

	Fair value	Investment maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
Corporate bonds	\$ 1,038,891	\$ 323,193	\$ 715,698	\$ -	\$ -
Government bonds	3,156,462	-	3,156,462	-	-
Municipal and provincial bonds	9,486,240	421,845	7,737,288	1,327,107	-
Government agency notes	2,160,676	90,496	796,307	1,273,873	-
U.S. government mortgage-backed securities	440,982	3,195	17,400	230,618	189,769
Residential and other asset-backed securities	247,408	-	-	52,146	195,262
Total	\$ 16,530,659	\$ 838,729	\$ 12,423,155	\$ 2,883,744	\$ 385,031

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

	Fair value	Investment maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
Corporate bonds	\$ 17,171,483	\$ 1,480,215	\$ 8,063,749	\$ 3,150,829	\$ 4,476,690
Government bonds	12,885,543	-	9,943,823	756,813	2,184,907
Municipal and provincial bonds	24,453,958	1,053,836	18,845,843	4,554,279	-
Government agency notes	7,690,999	276,516	4,138,809	3,275,674	-
U.S. government mortgage-backed securities	14,218,989	2,062	913	593,012	13,623,002
Residential and other asset-backed securities	5,605,253	-	736,369	117,051	4,751,833
Total	\$ 82,026,225	\$ 2,812,629	\$ 41,729,506	\$ 12,447,658	\$ 25,036,432

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:

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

Investment	Fair value	Weighted Average Maturity (years)
U.S. Government mortgage-backed securities	\$ 10,870,473	18.20
U.S. Government securities	5,566,970	5.56
Corporate bonds	2,721,170	6.81

City of Pontiac VEBA Trust - The VEBA TRUST's investment policy does not restrict investment maturities. At year end, maturities of the VEBA TRUST's debt securities were as follows:

	Fair value	Investment maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government obligations	\$ 3,418,275	\$ -	\$ 1,432,301	\$ 947,343	\$ 1,038,631
U.S. agency and mortgage-backed securities	498,205	-	498,205	-	-
U.S. collateralized mortgage obligations	4,705,423	-	-	-	4,705,423
Corporate bonds and notes	5,458,009	257,913	2,159,770	1,562,352	1,477,974
Corporate asset-backed securities	326,323	-	326,323	-	-
Collateralized mortgage obligations	1,859,928	-	-	-	1,859,928
Total	\$ 16,266,163	\$ 257,913	\$ 4,416,599	\$ 2,509,695	\$ 9,081,956

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	\$11,020,926	Not rated	n/a

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

General Employees' Retirement System and Reestablished 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
	GERS	RGERS		
Corporate bonds	\$ -	\$ 85,317	Aaa	Moody's
Corporate bonds	74,848	519,946	Aa	Moody's
Corporate bonds	329,269	7,789,049	A	Moody's
Corporate bonds	634,774	8,379,635	Baa	Moody's
Corporate bonds	-	397,536	Not rated	n/a
Government bonds	2,553,196	11,334,288	Aaa	Moody's
Municipal & provincial bonds	966,032	2,478,471	Aaa	Moody's
Municipal & provincial bonds	1,379,304	3,512,922	Aa	Moody's
Municipal & provincial bonds	159,538	375,383	A	Moody's
Municipal & provincial bonds	6,981,366	18,087,182	Not rated	n/a
Government agency notes	1,544,391	6,122,272	Aaa	Moody's
Government agency notes	616,285	1,568,727	Not rated	n/a
Residential and other asset-backed securities	128,524	4,808,783	Aaa	Moody's
Residential and other asset-backed securities	52,146	117,051	Baa	Moody's
Residential and other asset-backed securities	55,351	129,153	Caa	Moody's
Residential and other asset-backed securities	11,387	550,266	Not rated	n/a
Short-term investments	5,970,124	13,680,130	Not rated	n/a
	<u>\$21,456,535</u>	<u>\$79,936,111</u>		

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:

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 1,529,063	A	S&P
Corporate bonds	1,192,107	BBB	S&P

City of Pontiac VEBA Trust - The VEBA TRUST's investment policy places no restrictions greater than what is allowed under applicable statutes. As of year-end, the credit quality rating of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 873,161	A1	Moody's
Corporate bonds	432,573	A2	Moody's
Corporate bonds	1,156,260	A3	Moody's
Corporate bonds	39,988	Aa2	Moody's
Corporate bonds	64,191	Aa3	Moody's
Corporate bonds	29,596	Aaa	Moody's
Corporate bonds	1,348,702	Baa1	Moody's
Corporate bonds	1,021,685	Baa2	Moody's
Corporate bonds	261,493	Baa3	Moody's
Corporate bonds	230,360	Not rated	n/a
Government bonds	3,418,275	Aaa	Moody's
U.S. agency and mortgage-backed securities	498,205	Aaa	Moody's
U.S. collateralized mortgage obligations	4,705,423	Not rated	n/a
Corporate asset-backed securities	239,425	Aaa	Moody's
Corporate asset-backed securities	86,898	Not rated	n/a
Collateralized mortgage obligations	1,423,336	Aaa	Moody's
Collateralized mortgage obligations	436,592	Not rated	n/a
Money market funds	1,278,072	Aaa-mf	Moody's
	<u>\$ 17,544,235</u>		

Police and Fire Retirement System VEBA - The PFVEBA has no investment policy that would further limit its investment choices. At December 31, 2022, the Trust does not have any investments in debt securities.

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

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

the U.S. Treasury. At year end, there were no individual investments with a fair value that represented 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 represented 5% or more of the System's investments.

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

City of Pontiac VEBA Trust - - At year end, there were no individual investments with a fair value that represented 5% or more of the Trust's investments.

Police and Fire Retirement System VEBA - At year end, there were no individual investments with a fair value that represented 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.

Reestablished 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, 2022, 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, 2022 is summarized as follows:

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Notes to Financial Statements
June 30, 2023
(Continued)

Country	Currency	Fair Value
Australia	Australian dollar	\$ 374,677
Canada	Canadian dollar	250,793
Denmark	Danish krone	718,306
Europe	Euro	2,207,563
Hong Kong	Hong Kung dollar	549,505
Japan	Japanese yen	565,207
Sweden	Swedish krona	524,472
Switzerland	Swiss franc	1,263,047
United Kingdom	British pound	1,035,476
		<u>\$ 7,489,046</u>

For the year ended December 31, 2022, the System had a total foreign currency translation loss of \$341,000 related to international equities.

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, 2023, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

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Notes to Financial Statements
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(Continued)

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County LGIP	\$ 11,020,926	\$ -	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.

General Employees' Retirement System - GERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GERS had the following recurring fair value measurements as of December 31, 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Common stocks	\$ 28,528,688	\$ -	\$ -	\$ 28,528,688
Corporate bonds	-	1,038,891	-	1,038,891
Government bonds	-	3,156,462	-	3,156,462
Municipal and provincial bonds	-	9,486,240	-	9,486,240
Government agency notes	-	2,160,676	-	2,160,676
U.S. government mortgage- backed securities	-	440,982	-	440,982
Residential and other asset- backed securities	-	247,408	-	247,408
Short-term investments	5,970,124	-	-	5,970,124
International equities	270,010	-	-	270,010
Total at fair value	\$ 34,768,822	\$ 16,530,659	\$ -	\$ 51,299,481

Reestablished 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, 2022:

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(Continued)

	Quoted Prices in			
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Common stocks	\$ 162,702,829	\$ -	\$ -	\$ 162,702,829
Corporate bonds	-	17,171,483	-	17,171,483
Government bonds	-	12,885,543	-	12,885,543
Municipal and provincial bonds	-	24,453,958	-	24,453,958
Government agency notes	-	7,690,999	-	7,690,999
U.S. government mortgage- backed securities	-	14,218,989	-	14,218,989
Residential and other asset- backed securities	-	5,605,253	-	5,605,253
Short-term investments	13,680,130	-	-	13,680,130
International equities	9,753,729	-	-	9,753,729
Private equity funds	-	-	7,256,752	7,256,752
Total at fair value	\$ 186,136,688	\$ 82,026,225	\$ 7,256,752	275,419,665
Investments measured at net asset value				
Commingled funds:				
Domestic				28,803,929
International				27,557,267
Real estate funds				49,698,076
Total investments at NAV				106,059,272
Total investments				\$ 381,478,937

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.

Additional information as of December 31, 2022 about the nature and risk of the System's investments that calculate NAV per share as a practical expedient is as follows:

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Notes to Financial Statements
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(Continued)

	Net Asset Value	Redemption Frequency, if Eligible	Redemption Notice Period
Commingled funds:			
Domestic	\$ 28,803,929	Daily/monthly	10 days
International	27,557,267	Daily/monthly	10 days
Real estate funds	<u>49,698,076</u>	Monthly/quarterly	10-180 days
	<u>\$ 106,059,272</u>		

There are no unfunded commitments to acquire additional units of these investments as of December 31, 2022.

Police and Fire Retirement System - PFRS 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, 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
U.S. government securities	\$ -	\$ 5,566,970	\$ -	\$ 5,566,970
Common stocks	41,744,520	-	-	41,744,520
Corporate bonds	-	2,721,170	-	2,721,170
Mutual funds	22,945,853	-	-	22,945,853
Real estate funds	-	2,509,662	-	2,509,662
Limited partnerships	-	4,751,893	-	4,751,893
Short-term investment funds	2,578,748	-		2,578,748
U.S. government mortgage- backed securities	-	10,870,473	-	10,870,473
Total at fair value	\$ 67,269,121	\$ 26,420,168	\$ -	93,689,289
Investments measured at net asset value				
Private equity funds				51,960,498
Real estate funds				21,039,395
Collective trust funds				8,420,214
Limited partnerships				16,850,308
Total investments at NAV				98,270,415
Total investments				\$ 191,959,704

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.

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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, 2022.

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	\$ 51,960,498	\$ -	Monthly	Up to 5 days
Real estate funds	21,039,395	525,735	Quarterly	10 days
Collective trust funds	8,420,214	-	Daily	5 days
Limited partnership funds	16,850,308	4,184,774	Quarterly	10 days
	<u>\$ 98,270,415</u>	<u>\$ 4,710,509</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 include 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.

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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 VEBA Trust - 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 June 30, 2023:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Money market funds	\$ 1,278,072	\$ -	\$ -	\$ 1,278,072
U.S. government obligations	-	3,418,275	-	3,418,275
U.S. agency and mortgage- backed securities	-	498,205	-	498,205
U.S. collateralized mortgage obligations	-	4,705,423	-	4,705,423
Corporate bonds and notes	-	5,458,009	-	5,458,009
Corporate asset-backed securities	-	326,323	-	326,323
Collateralized mortgage obligations	-	1,859,928	-	1,859,928
Common stocks	16,229,226	-	-	16,229,226
Foreign stocks	981,620	-	-	981,620
Registered investment companies	18,194,887	-	-	18,194,887
Total	<u>\$ 36,683,805</u>	<u>\$ 16,266,163</u>	<u>\$ -</u>	52,949,968
Investments measured at NAV				
Commingled funds				5,625,233
Private equity funds				<u>8,673,379</u>
Total investments at NAV				<u>14,298,612</u>
Total investments				<u>\$ 67,248,580</u>

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Additional information as of June 30, 2023 about the nature and risk of the Trust's investments that calculate NAV per share as a practical expedient is as follows:

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

	<u>Net Asset Value</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 5,625,233	Daily/monthly	2-30 days
Private equity funds	8,673,379	Monthly/quarterly	10-90 days
	<u>\$ 14,298,612</u>		

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, 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Common stocks	\$ 12,385,093	\$ -	\$ -	\$12,385,093
Real estate investment trusts	641,791	-	-	641,791
Mutual funds	17,944,706	-	-	17,944,706
Short-term investments	1,319,590	-	-	1,319,590
Limited partnerships	-	909,277	-	909,277
Total at fair value	<u>\$ 32,291,180</u>	<u>\$ 909,277</u>	<u>\$ -</u>	<u>33,200,457</u>
Investments measured at net asset value				
Limited partnerships				<u>4,769,943</u>
Total investments				<u><u>\$37,970,400</u></u>

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.

At December 31, 2022, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

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(Continued)

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Limited partnerships	<u>\$ 4,769,943</u>	<u>\$ 182,930</u>	Monthly	5 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.

4. RECEIVABLES & CONCENTRATION RISK

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	\$ 29,664,275	\$ -	\$ -
Accounts	2,071,651	-	-
Intergovernmental	3,671,887	-	-
Leases	1,451,899	-	1,418,166
Interest receivable	491,007	-	-
Less allowance for doubtful accounts	<u>(22,290,997)</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 15,059,722</u>	<u>\$ -</u>	<u>\$ 1,418,166</u>

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 25,105,058	\$ -	\$ -	\$ 25,105,058
Construction in progress	3,131,381	1,447,448	(1,518,848)	3,059,981
Subtotal	<u>28,236,439</u>	<u>1,447,448</u>	<u>(1,518,848)</u>	<u>28,165,039</u>
Capital assets being depreciated				
Streets and bridges	321,088,298	28,451	1,471,851	322,588,600
Buildings and improvements	42,498,312	-	-	42,498,312
Machinery and equipment	1,289,115	912,280	-	2,201,395
Vehicles	1,044,566	-	-	1,044,566
Land improvements	374,952	-	46,997	421,949
Leased building	123,542	-	-	123,542
Subtotal	<u>366,418,785</u>	<u>940,731</u>	<u>1,518,848</u>	<u>368,878,364</u>
Less accumulated depreciation for:				
Streets and bridges	(258,069,740)	(5,796,210)	-	(263,865,950)
Buildings and improvements	(40,409,989)	(205,305)	-	(40,615,294)
Machinery and equipment	(670,849)	(201,114)	-	(871,963)
Vehicles	(945,671)	(65,929)	-	(1,011,600)
Land improvements	(242,321)	(19,131)	-	(261,452)
Leased building	(61,771)	(61,771)	-	(123,542)
Subtotal	<u>(300,400,341)</u>	<u>(6,349,460)</u>	<u>-</u>	<u>(306,749,801)</u>
Net capital assets being depreciated	<u>66,018,444</u>			<u>62,128,563</u>
Capital assets-net of depreciation	<u>\$ 94,254,883</u>			<u>\$ 90,293,602</u>

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities				
Parking fund				
Capital assets not being depreciated:				
Land	\$ 3,042,537	\$ -	\$ -	\$ 3,042,537
Construction in progress	769,580	-	(769,580)	-
	<u>3,812,117</u>	<u>-</u>	<u>(769,580)</u>	<u>3,042,537</u>
Capital assets being depreciated:				
Buildings and improvements	33,573,313	-	769,580	34,342,893
Traffic Signs	57,182	-	-	57,182
	<u>33,630,495</u>	<u>-</u>	<u>769,580</u>	<u>34,400,075</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	(29,017,675)	(593,672)	-	(29,611,347)
Traffic signs	(57,182)	-	-	(57,182)
	<u>(29,074,857)</u>	<u>(593,672)</u>	<u>-</u>	<u>(29,668,529)</u>
Total capital assets being depreciated and amortized, net	<u>4,555,638</u>			<u>4,731,546</u>
Business-type activities capital assets, net	<u><u>\$ 8,367,755</u></u>			<u><u>\$ 7,774,083</u></u>

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

Depreciation/amortization of governmental activities	
General Government	\$ 393,907
Public Safety	5,115
Public Works	5,944,938
Community and human services	5,500
Total governmental activities depreciation expense	<u><u>\$ 6,349,460</u></u>
Depreciation of business-type activities	
Parking	<u><u>\$ 593,672</u></u>

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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

	Spent to Date	Remaining Commitment
Governmental activities	\$ 94,227	\$ 235,854
Business-type activities	<u>-</u>	<u>-</u>
	<u>\$ 94,227</u>	<u>\$ 235,854</u>

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.

Asset Type	Remaining Term of Agreements
Building	0 Years (Lease ended in 2023)

The assets acquired through the lease are summarized as follows:

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

Lease liability activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Leases payable	<u>\$ 57,278</u>	<u>\$ -</u>	<u>\$ (57,278)</u>	<u>\$ -</u>	<u>\$ -</u>

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

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

noncancelable term of the agreement surpasses one year. Total lease revenue for the year ended June 30, 2023 was \$37,450.

Remaining Term of Agreements

Asset Type

Land

28 years

Lease receivable activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities				
Leases receivable	<u>\$ 1,484,401</u>	<u>\$ -</u>	<u>\$ (32,502)</u>	<u>\$ 1,451,899</u>

7. INTERFUND TRANSFERS

At June 30, 2023, the composition of interfund balances is as follows:

Fund	Due from Other Funds	Fund	Due to Other Funds
General fund	\$ 6,113,592	General fund	\$ 1,368,005
District court fund	1,368,005	District court fund	-
Insurance fund	-	Insurance fund	6,113,592
	<u>\$ 7,481,597</u>		<u>\$ 7,481,597</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, 2023, interfund transfers reported in the fund financial statements are comprised of the following:

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 11,598,116	\$ 3,684,004
Progress for Pontiac	-	10,000,000
Nonmajor governmental funds	2,318,071	999,384
Component units	767,201	-
	<u>\$ 14,683,388</u>	<u>\$ 14,683,388</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move funds to the district court fund for the subsidy of operations, and (3) transfer parking fine collections; and (4) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. LONG-TERM DEBT

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Other long-term obligations:					
2007C TIFA Bond					
Financial Guarantee	\$ 1,491,859	\$ -	\$ (789,211)	\$ 702,648	\$ 392,268
Landfill closure and postclosure costs	2,325,654	-	(1,523)	2,324,131	-
Ottawa Towers settlement	5,636,167	-	(663,700)	4,972,467	703,934
Compensated Absences	536,538	701,029	(416,333)	821,234	615,925
Total Governmental Activities	<u>\$ 9,990,218</u>	<u>\$ 701,029</u>	<u>\$ (1,870,767)</u>	<u>\$ 8,820,480</u>	<u>\$ 1,712,127</u>

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Units					
Direct borrowings and direct placements:					
\$31,080,000 2007 C TIFA	\$ 15,050,000	\$ -	\$ (1,985,000)	\$ 13,065,000	\$ 1,715,000
Other long-term obligation- Financial guarantee	6,526,469	767,200	-	7,293,668	-
Total component units	\$ 21,576,469	\$ 767,200	\$ (1,985,000)	\$ 20,358,668	\$ 1,715,000

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

	Governmental Activities		Component Units	
	Obligations (Financial Guarantee and Ottawa Towers Settlement)		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
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	1,890,183	57,533	1,565,000	290,475
Thereafter	-	-	4,890,000	443,588
	<u>\$ 5,675,115</u>	<u>\$ 889,154</u>	<u>\$ 13,065,000</u>	<u>\$ 2,685,652</u>

Compensated absences and separation accruals in governmental activities of \$821,234 are payable upon retirement or termination of eligible employees; therefore, specific payment dates are not determinable. Also, the landfill closure and post closure cost accrual of \$2,324,131 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 post closure costs represent the cumulative amount of closure and post closure 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.

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June 30, 2023
(Continued)

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 2023, total TIFA debt service amounted to \$2,319,450 of which \$767,200 was paid by the City and \$1,552,250 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 \$7,293,669 at June 30, 2023. 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.

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.

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Notes to Financial Statements
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(Continued)

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 are 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.

9. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	Governmental Activities
Cash and investments:	
ARPA funds	\$ 27,240,013
Landfill closure and postclosure costs	2,074,995
	<u>\$ 29,315,008</u>

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Notes to Financial Statements
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(Continued)

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 post closure 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 post closure 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 \$2,324,131 reported as landfill closure and post closure liability at June 30, 2023 represents the cumulative amount reported to date based on the closure and post closure 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 post closure 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/post closure costs. On a volume basis versus site acreage basis, approximately 100 percent of landfill capacity is used as of June 30, 2023. 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 post closure care. The City is in compliance with these requirements and, at June 30, 2023, investments and deposits held in trust of \$2,074,995 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 post closure 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.

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Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported.

For medical, dental and workers' compensation, the City was fully insured in the last three fiscal years. However, for prior years in which the City was not fully insured, a liability is estimated for workers' compensation claims that have been reported as well as those that have not yet been reported. As of June 30, 2023, 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	
	2023	2022	2023	2022
Unpaid claims -				
Beginning of year	\$ 118,065	\$ 497,356	\$ 260,373	\$ 335,075
Incurred claims (adjustments)	1,347,900	(287,336)	4,832,672	8,625
Claim payments	(587,874)	(91,955)	(325,508)	(83,327)
Reserve in excess of self-insurance retention	-	-	(4,601,423)	-
Unpaid claims -				
End of year	<u>\$ 878,091</u>	<u>\$ 118,065</u>	<u>\$ 166,114</u>	<u>\$ 260,373</u>

12. DEFINED BENEFIT PENSION PLAN – REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

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. There are no participants in the old GERS plan and all participants are transferred to the new RGERS plan.

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(Continued)

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

Method Used to Value Investments. Investments 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.

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, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (12.89)%. 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

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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, 2022, 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 contribute to the System in the current year. Administrative costs are financed through investment earnings.

Employees Covered by Benefit Terms. At December 31, 2022, System membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	1,017
Inactive employees entitled to but not yet receiving benefits	88
Active employees	<u>17</u>
Total membership	<u><u>1,122</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 ("MAPE", representing the 50th District Court employees) collective bargaining agreement. In July 2022, MAPE approved a tentative agreement that would close the RGERS to all new hires, effective July 1, 2022.

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	\$ 260,262,979
Employee reserve	129,947

Net Pension Asset. The City's net pension asset was measured as of December 31, 2022.

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Actuarial Assumptions. The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.0%
Salary increases	3.6% to 7.4% average, including wage inflation of 2.5%
Investment rate of return	6.0% net of investment expense, 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, 2022 are summarized in the following table:

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Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - All Cap	14.00%	8.91%
Domestic equity - Large Cap	10.00%	8.90%
Domestic equity - Mid Cap	15.00%	10.32%
Domestic equity - Small Cap	11.00%	9.39%
International equity	5.00%	6.32%
Emerging markets equity	5.00%	9.38%
Fixed income - Core	25.00%	0.69%
Real estate	10.00%	6.16%
Private equity	5.00%	12.91%
	<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.

Changes in Net Pension (Assets) Liability

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

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	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2021	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	179,497	-	179,497
Interest	15,609,604	-	15,609,604
Differences between expected and actual experience	(1,166,602)	-	-
Changes in actuarial assumptions	(12,260,194)	-	(12,260,194)
Transfer of pension liability from GERS	270,854,065	-	270,854,065
Net investment income (loss)	-	(38,420,607)	38,420,607
Benefit payments, including refunds of employee contributions	(21,757,276)	(21,757,276)	-
Administrative expense	-	(622,141)	622,141
Plan-plan resource movement	-	443,006,450	(443,006,450)
Miscellaneous other charges/revenue	-	30,408	(30,408)
Net changes	<u>251,459,094</u>	<u>382,236,834</u>	<u>(130,777,740)</u>
Balance as of December 31, 2022	<u>\$ 251,459,094</u>	<u>\$ 382,236,834</u>	<u>\$ (130,777,740)</u>

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:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
City's net pension asset	\$ (107,171,498)	\$ (130,777,740)	\$ (152,425,094)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, the City recognized pension expense of (\$131,520,891). At June 30, 2023, the City reported deferred inflows of resources related to pensions from the following sources:

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	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ (5,865,670)
Total	\$ (5,865,670)

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

Year Ended June 30,	Amount
2024	\$ (15,644,199)
2025	(4,311,072)
2026	1,758,933
2027	12,330,668
Total	<u>\$ (5,865,670)</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

City of Pontiac, Michigan
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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, 2022, the annual money-weighted rate of return, net of expenses on the Retirement System's investments, was (10.81)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Benefits Provided. The Retirement System provides retirement, 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, 2022, the City's required contribution was \$2,496,606 and actual contributions were \$3,709,236. There were no contributions due from members during fiscal year 2022.

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Employees Covered by Benefit Terms. At June 30, 2023, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	433
Inactive employees entitled to but not yet receiving benefits	<u>104</u>
Total membership	<u><u>537</u></u>

Reserves. As of December 31, 2022, 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, 2022 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 243,211,632	\$ 198,500,351
Employee reserve	1,123,397	1,123,397

Net Pension Liability. The City's net pension liability was measured as of December 31, 2022.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2022. 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	7.50%, net of pension plan investment expense, including inflation
Cost of living adjustments	2.0%, per year up to 25 years

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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, 2022 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.

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

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	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2021	<u>\$ 246,905,871</u>	<u>\$ 237,832,010</u>	<u>\$ 9,073,861</u>
Changes for the year:			
Interest	17,156,249	-	17,156,249
Differences between expected and actual experience	(314,580)	-	(314,580)
Employer contributions	-	3,709,236	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(20,535,908)	(20,535,908)	-
Net investment income (loss)	-	(22,165,562)	-
Administrative expense	-	(339,425)	339,425
Other	-	-	-
Net changes	<u>(3,694,239)</u>	<u>(39,331,659)</u>	<u>35,637,420</u>
Balance as of December 31, 2022	<u>\$ 243,211,632</u>	<u>\$ 198,500,351</u>	<u>\$ 44,711,281</u>

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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's net pension liability	\$ 69,017,462	\$ 44,711,281	\$ 24,212,408

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2023, the City recognized pension expense of \$5,240,064. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources
Differnece between projected and actual earnings on pension plan investments	<u>\$ 15,558,781</u>
Total	<u>\$ 15,558,781</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
2024	\$ (88,603)
2025	3,561,545
2026	4,328,617
2027	<u>7,757,222</u>
Total	<u><u>\$ 15,558,781</u></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 (currently RGERS). The

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Employer/Employee contribution are listed below. Vesting is immediate. Employer contributions for each employee plus interest allocated to the employees' account are immediately vested.

<u>Employee Contribution</u>	<u>Employer Contribution</u>
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 \$7,347,266. The current year's contribution was calculated based on covered payroll of \$4,137,834, resulting in employer contributions of \$88,258 and employee contributions of \$176,516. As of June 30, 2023, there were 62 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 a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to all its employees. 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 – VEBA TRUST

Plan Description. The City of Pontiac's VEBA post-retirement health benefits plan (Plan) is a single employer defined benefit postemployment health care plan that covers eligible retired employees and their spouses. The Plan allows employees who retire or become disabled and meet retirement eligibility requirements under the Plan to continue medical coverage as a participant in the plan. Eligible members are entitled to lifetime medical and prescription drug coverage. The Trust has received a favorable determination letter, dated August 10, 2020 and effective March 23, 2020, from the Internal Revenue Service that recognized the Trust as an entity that qualifies as a VEBA under sections 501(a) and 501(c)(9) of the Internal Revenue Code. 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.

Overall Fund Structure and Objectives. The Trust has been established to pay health care benefits to all eligible retirees of the City of Pontiac, Michigan. Any excess of contributions over benefits paid will allow for additional funding to increase investment income to a level

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where the Trust will generate adequate earnings to pay future benefits. The public markets represent the primary source of investment.

The Trust was created as a result of a Settlement Agreement reached in a lawsuit filed by the City of Pontiac Retired Employees Association against the City, which principally sought to restore retiree health care that had been reduced or eliminated by a series of Orders issued by the City's Emergency Manager in 2011. On April 4, 2017, the bargaining parties announced that a tentative settlement had been reached in the litigation with regard to retiree health care. The Settlement Agreement provides, among other stipulations, that a Trust would be created to provide retiree health care benefits for all eligible City retirees. The Trust is a voluntary employees' beneficiary association ("VEBA"). The Settlement Agreement also provided that the existing City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "PF VEBA") would merge into the VEBA, merger of PF VEBA is still pending as of June 30, 2023.

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.

Investment Policy. The investment policy statement regarding the allocation of invested assets is established and may be amended by the Board. The investment policy statement pursues an investment strategy that preserves and enhances the real purchasing power of the Trust's assets. The objective for all the investment assets is accomplished utilizing equities, fixed income investments, alternative investments, and cash equivalents in a mix which is conducive to participation in rising markets, while allowing for protection in falling markets.

Rate of Return. For the year ended June 30, 2023 the annual money-weighted rate of return on OPEB plan investments was 3.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Benefits Provided. The Board selected initial health programs to provide comprehensive health benefits, including doctor and hospital services and prescription drug coverage. These programs will be subject to review and may be changed or replaced by the Board from time to time as may be prudent to serve the purposes specified in the trust agreement into the future. Premiums for those health benefits are paid for entirely by the Trust assets.

Additionally, class members have the option of terminating their right to receive any health care benefits from the Trust in exchange for a one-time payment of \$20,000. Once a class member

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begins receiving benefits from the Trust, that class member forfeits the option to receive the \$20,000 payment. Any class member who exercises this option, however, will forever lose the right to receive any and all health, dental, vision and prescription drug health care coverage from the Trust.

Contributions. The Settlement Agreement provides that the City will make contributions to the VEBA in an amount no greater than \$1,500,000 annually, in the event ongoing actuarial valuation reports evidence that the VEBA has an unfunded liability. No employer contribution revenue was recorded in the current year.

Employees Covered by Benefit Terms. At December 31, 2022, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	639
Inactive employees entitled to but not yet receiving benefits	<u>193</u>
Total membership	<u><u>832</u></u>

Net OPEB Liability (Asset). The City's net OPEB liability (asset) was measured as of December 31, 2022.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, which used updated procedures to roll forward the estimated liability to December 31, 2022. 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	7.5% decreasing 0.5% per year to an ultimate rate of 4.5% in 2028 and later years 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% in 2026 and later for post-65 retirees
Employer funding policy	Pay-as-you-go cash basis with future benefit payments being paid out of the Trust. No additional employer contributions are expected to be made to the Trust
Investment rate of return	6.50% net of OPEB plan investment expense, including inflation

Mortality assumptions for retired PFRS members and their spouses and dependents who are covered by the VEBA were as follows:

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- General retirees and deferred vested employees – Society of Actuaries (“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

Mortality assumptions for retired PFRS members and their spouses and dependents who are not covered by the VEBA, as well as retired GERS members and their spouses and dependents, were as follows:

- Healthy GERS (currently RGERs) retirees – SOA Pub.H-2010 General Mortality Table, fully generational, using scale MP-2021
- Healthy PFRS retirees – SOA Pub.H-2010 Public Safety Mortality Table, fully generational, using scale MP-2021
- Disabled GERS (currently RGERs) retirees – SOA Pub.H-2010 disabled General Mortality Table, fully generational, using Scale MP-2021
- Disabled PFRS retirees – SOA Pub.H-2010 Disabled Public Safety Mortality Table, fully generational, using Scale MP-2021
- Beneficiaries – SOA Pub.H-2010 Contingent Survivor Mortality Table, fully generational, using scale MP-2021

Long-term Expected Rate of Return. The long-term expected rate of return on Trust 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 weighing the expected future 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 as follows:

Asset Class	Target Allocation	Asset Class	Long-term Expected Real Rate of Return
Equities	60.00%	Domestic equities	5.60%
Fixed income securities	25.00%	International equities	9.20%
Real assets	10.00%	Domestic bonds	3.10%
Private equity	5.00%	International bonds	2.50%
Cash	0.00%	Alternative assets	5.51%
	<u>100.00%</u>		

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Discount Rate. The discount rate used to measure the total OPEB liability at December 31, 2022 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, 2021	<u>\$69,985,216</u>	<u>\$ 110,498,239</u>	<u>\$ (40,513,023)</u>
Changes for the year:			
Interest	4,371,821	-	4,371,821
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(5,540,082)	(3,395,286)	(2,144,796)
Net investment income (loss)	-	3,666,544	-
Administrative expense	-	(547,664)	547,664
Other	-	-	-
Net changes	<u>(1,168,261)</u>	<u>(276,406)</u>	<u>(891,855)</u>
Balance as of December 31, 2022	<u><u>\$68,816,955</u></u>	<u><u>\$ 110,221,833</u></u>	<u><u>\$ (41,404,878)</u></u>

Changes in Assumptions. No changes in assumptions were reported for the year ended June 30, 2023.

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)	\$ (33,338,171)	\$ (41,404,878)	\$ (49,802,575)

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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%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net OPEB liability (asset)	\$ (50,324,430)	\$ (41,404,878)	\$ (32,851,532)

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, 2023, the City recognized OPEB expense of \$635,310. At June 30, 2023, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on OPEB plan investments	<u>\$ 19,659,440</u>

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

Year Ended June 30,	Amount
2024	\$ 4,914,860
2025	4,914,860
2026	4,914,860
2027	4,914,860
Total	<u>\$ 19,659,440</u>

16. 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

City of Pontiac, Michigan
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(Continued)

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, 2022, 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.

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, 2022, the annual money-weighted rate of return on OPEB plan investments was (12.82)%. 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.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

Contributions. Effective September 1, 2021, retirees are no longer required to contribute for medical, dental or vision premiums. Therefore, there were no retiree contributions during the year ended December 31, 2022. No employer contribution revenue was recorded in the current year.

Employees Covered by Benefit Terms. At December 31, 2022, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	250
Inactive employees entitled to but not yet receiving benefits	<u>88</u>
Total membership	<u><u>338</u></u>

Net OPEB Liability (Asset). The City's net OPEB liability (asset) was measured as of December 31, 2022.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, which used update procedures to roll forward the estimated liability to December 31, 2022. 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	7.00% decreasing 0.50% 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 scale 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
Employer funding policy	Pay-as-you-go cash basis with future benefit payments being paid out of the Trust. No additional employer contributions are expected to be made to the Trust
Investment rate of return	6.50% net of OPEB plan investment expense, including inflation

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
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, 2022 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:

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at December 31, 2021	<u>\$44,552,146</u>	<u>\$47,781,918</u>	<u>\$ (3,229,772)</u>
Changes for the year:			
Interest	2,745,353	-	2,745,353
Differences between expected and actual experience	(494,950)	-	(494,950)
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(4,705,967)	(4,705,967)	-
Net investment income (loss)	-	(6,075,914)	-
Administrative expense	-	(94,821)	94,821
Other	-	2,380	(2,380)
Net changes	<u>(2,455,564)</u>	<u>(10,874,322)</u>	<u>8,418,758</u>
Balance as of December 31, 2022	<u><u>\$42,096,582</u></u>	<u><u>\$36,907,596</u></u>	<u><u>\$ 5,188,986</u></u>

Changes in Assumptions. No changes in assumptions were reported for the year ended June 30, 2023.

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)	\$ 9,612,354	\$ 5,188,986	\$ 1,502,797

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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
City's net OPEB liability (asset)	\$ 1,230,926	\$ 5,188,986	\$ 9,870,483

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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, 2023, the City recognized OPEB expense of \$935,000. At June 30, 2023, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on pension plan investments	<u>\$ 4,206,099</u>

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

Year Ended June 30,	Amount
2024	\$ 348,565
2025	1,024,106
2026	1,028,764
2027	<u>1,804,664</u>
Total	<u>\$ 4,206,099</u>

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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

	12/31/2022	12/31/2022	12/31/2022	6/30/2023	12/31/2022	
	GERS	RGERS	PFRS	VEBA TRUST	PFRS-VEBA	Total
Assets						
Cash and cash equivalents	\$ 10,016	\$ 70,624	\$ 6,304,558	\$ 4,065,620	\$ 437,705	\$ 10,888,523
Investments at fair value or net asset value:						-
U.S. government securities	-	-	5,566,970	-	-	5,566,970
Common stocks	28,528,688	162,702,829	41,744,520	16,229,226	12,385,093	261,590,356
Corporate bonds	1,038,891	17,171,483	2,721,170	5,458,009	-	26,389,553
Mutual funds	-	-	22,945,853	-	17,944,706	40,890,559
Money market funds	-	-	-	1,278,072	-	1,278,072
Government bonds	3,156,462	12,885,543	-	3,418,275	-	19,460,280
Municipal and provincial bonds	9,486,240	24,453,958	-	-	-	33,940,198
Government agency notes	2,160,676	7,690,999	-	-	-	9,851,675
U.S. government mortgage-backed securities	440,982	14,218,989	10,870,473	498,205	-	26,028,649
U.S. Collateralized mortgage obligations	-	-	-	4,705,423	-	4,705,423
Residential and other asset-backed securities	247,408	5,605,253	-	326,323	-	6,178,984
Collateralized mortgage obligations	-	-	-	1,859,928	-	1,859,928
Short-term investments	5,970,124	13,680,130	2,578,748	-	1,319,590	23,548,592
International equities	270,010	9,753,729	-	981,620	-	11,005,359
Private equity funds	-	7,256,752	51,960,498	8,673,379	-	67,890,629
Commingled funds:						
Domestic	-	28,803,929	-	5,625,233	-	34,429,162
International	-	27,557,267	-	-	-	27,557,267
Real estate funds	-	49,698,076	23,549,057	-	641,791	73,888,924
Registered investment companies	-	-	-	18,194,887	-	18,194,887
Collective trust funds	-	-	8,420,214	-	-	8,420,214
Limited partnerships	-	-	21,602,201	-	5,679,220	27,281,421
Accrued interest receivable	218,579	690,700	289,905	123,834	27,684	1,350,702
Other receivables	-	671,258	78,144	-	-	749,402
Due from PF VEBA	-	-	-	38,997,371	-	38,997,371
Total Assets	51,528,076	382,911,519	198,632,311	110,435,405	38,435,789	781,943,100
Liabilities						
Accounts payable and other	472,020	674,685	131,960	213,572	31,074	1,523,311
Due to City of Pontiac	-	-	-	-	412,616	412,616
Due to City of Pontiac PFRS	-	-	-	-	84,503	84,503
Due to City of Pontiac VEBA Trust	-	-	-	-	1,000,000	1,000,000
Total Liabilities	472,020	674,685	131,960	213,572	1,528,193	3,020,430
Net Position Restricted For						
Pension Benefits	51,056,056	382,236,834	198,500,351	-	-	631,793,241
Other Postemployment Benefits	-	-	-	110,221,833	36,907,596	147,129,429
Total net position	\$ 51,056,056	\$ 382,236,834	\$ 198,500,351	\$ 110,221,833	\$ 36,907,596	\$ 778,922,670

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

	12/31/2022	12/31/2022	12/31/2022	6/30/2023	12/31/2022	
	GERS	RGERS	PFRS	VEBA TRUST	PFRS-VEBA	Total
Additions						
Investment income:						
Net change in fair value of investments	\$ (30,403,511)	\$ (40,971,348)	\$ (25,305,792)	\$ 2,249,327	\$ (6,663,504)	\$ (101,094,828)
Interest and dividends	1,590,561	5,116,614	3,866,273	1,417,217	680,426	12,671,091
Less: investment related expenses	(44,719)	(2,565,873)	(726,043)	-	(92,836)	(3,429,471)
						-
Net investment income	(28,857,669)	(38,420,607)	(22,165,562)	3,666,544	(6,075,914)	(91,853,208)
						-
Contributions - Employer	-	-	3,709,236	-	-	3,709,236
						-
Plan-to-plan resource movement	-	443,006,450	-	-	-	443,006,450
Miscellaneous and litigation revenue	39,470	30,408	-	-	2,380	72,258
						-
Total Additions	(28,818,199)	404,616,251	(18,456,326)	3,666,544	(6,073,534)	354,934,736
						-
Deductions						-
Participant benefit payments		21,757,276	20,535,908	-	4,705,967	46,999,151
Administrative expenses	10,771	622,141	339,425	547,664	94,821	1,614,822
Transfers to City of Pontiac	76,096,372	-	-	-	-	76,096,372
Insurance premiums	-	-	-	3,195,286	-	3,195,286
Opt out benefit payments	-	-	-	200,000	-	200,000
Plan-to-plan resource movement	443,006,450	-	-	-	-	443,006,450
						-
Total Deductions	519,113,593	22,379,417	20,875,333	3,942,950	4,800,788	571,112,081
						-
Change in Net Position	(547,931,792)	382,236,834	(39,331,659)	(276,406)	(10,874,322)	(216,177,345)
Net Position, Beginning of Year	598,987,848	-	237,832,010	110,498,239	47,781,918	995,100,015
						-
Net Position, End of Year	\$ 51,056,056	\$ 382,236,834	\$ 198,500,351	\$ 110,221,833	\$ 36,907,596	\$ 778,922,670

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

City of Pontiac, Michigan
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(Continued)

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 -

City of Pontiac Retired Employees Association (“CPREA”) 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 November 2018, the federal judge in the case approved the tentative settlement. Based on the Court’s approval of the tentative agreement a VEBA Trust was established and the new VEBA received funding in 2022 and began providing services to retirees. More recently, the City of Pontiac received a request from Counsel for CPREA to agree to several modifications of the class action settlement agreement, including but not limited to making a temporary monthly increase to pension benefits for the retiree class permanent. The City of Pontiac seeks to add retirees of the local District Court to the class, as a modification to the settlement agreement. The parties are currently in the process of negotiating these various amendments, will obtain actuarial analysis of the impact of the amendments before agreeing to them, and will ultimately seek the Court’s approval for any and all modifications to ensure that they do not work to the detriment of the class. The City anticipates Court approval in early 2024.

Additionally, the VEBA Board of Trustees has announced that it intends to make unilateral changes to the retiree costs for the benefits at issue in the Retiree Health Benefit lawsuit. Because this may have an adverse impact on the VEBA’s ability to provide funds to the retiree class for life, the City of Pontiac threatened litigation if the VEBA Board did not engage in compromise negotiations. The VEBA Board has refused, and the City of Pontiac intends to file a lawsuit in the United States District Court for the Eastern District of Michigan. The lawsuit will likely be filed early next year, and it will allege breach of contract and breach of fiduciary duty claims. The City anticipates that in early 2024, the Police and Fire VEBA will be merged with the new 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 \$47,467 in reduced City tax revenues for the year.

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

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 \$962,464 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 \$712,000 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 \$1,865,600 in reduced City tax revenues for the year.

City of Pontiac, Michigan
Notes to Financial Statements
June 30, 2023
(Continued)

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	Nonmajor Governmental Funds	Total
Nonspendable					
Prepaid items	\$ 165,704	\$ -	\$ -	\$ 998	\$ 166,702
Restricted					
Roads	-	5,743,711	-	1,743,279	7,486,990
Healthcare payouts	-	-	3,840,000	-	3,840,000
Drug enforcement	-	-	-	209,026	209,026
Capital projects	-	-	-	4,344,341	4,344,341
Sanitation	-	-	-	8,804,595	8,804,595
Senior activities	-	-	-	865,342	865,342
Community development	-	-	-	30,460	30,460
Home buyers assistance	-	-	-	27,360	27,360
Cable television	-	-	-	1,757,311	1,757,311
Youth recreation	-	-	-	893,465	893,465
Telecommunications	-	-	-	23,222	23,222
Building inspection	-	-	-	3,167,441	3,167,441
Michigan indigent defense	-	-	-	5,338	5,338
Opioid rehabilitation	-	-	-	194,282	194,282
Total restricted	-	5,743,711	3,840,000	22,065,462	31,649,173
Committed					
Youth recreation	3,200,000	-	-	-	3,200,000
District court	-	-	-	1,520,202	1,520,202
Total committed	3,200,000	-	-	1,520,202	4,720,202
Assigned					
Ottawa Towers settlement	4,972,467	-	-	-	4,972,467
Unassigned	31,876,846	-	-	-	31,876,846
Total fund balances	\$ 40,215,017	\$ 5,743,711	\$ 3,840,000	\$ 23,586,662	\$ 73,385,390

City of Pontiac, Michigan
Notes to Financial Statements
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(Continued)

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	\$ 28,165,039	\$ 3,042,537	\$ 31,207,576
Capital assets being depreciated, net	62,128,563	4,731,546	66,860,109
	<u>\$ 90,293,602</u>	<u>\$ 7,774,083</u>	<u>\$ 98,067,685</u>
Related debt			
Leases payable	\$ -	\$ -	\$ -
Net investment in capital assets	<u>\$ 90,293,602</u>	<u>\$ 7,774,083</u>	<u>\$ 98,067,685</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 \$27.2 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
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2023

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Revenues				
Property Taxes	\$ 9,244,266	\$ 9,244,266	\$ 11,654,255	\$ 2,409,989
Income Taxes	17,355,555	17,355,555	19,195,736	1,840,181
Federal Grants	10,000,000	519,372	290,483	(228,889)
State Grants	12,058,102	12,058,102	12,479,232	421,130
Charges for Services	1,272,700	1,272,700	1,278,998	6,298
Fines and Forfeitures	51,000	51,000	22,948	(28,052)
Licenses and Permits	145,900	145,900	117,825	(28,075)
Investment Income (Loss)	386,400	386,400	3,144,949	2,758,549
Other	1,947,710	2,387,710	2,354,329	(33,381)
Total revenues	52,461,633	43,421,005	50,538,754	7,117,749
Expenditures				
Current:				
General Government	7,846,496	8,822,680	7,116,445	1,706,235
Public Safety	24,796,276	24,815,648	24,904,574	(88,926)
Public Works	3,766,947	4,031,647	3,178,113	853,534
Community and Development	2,638,710	1,443,948	958,032	485,916
Recreation and Culutre	1,341,735	1,558,335	606,033	952,302
Retiree Fringe Benefits	3,869,003	3,869,003	3,948,636	(79,633)
Debt service:				
Principal Repayments	-	663,700	663,700	0
Lease Principal	-	-	57,278	(57,278)
Interest	-	314,777	315,832	(1,055)
Total expenditures	44,259,167	45,519,738	41,748,642	3,771,096
Revenues Over (Under) Expenditures	8,202,466	(2,098,733)	8,790,112	10,888,845
Other Financing Sources (Uses)				
Transfers In	(1,598,116)	11,598,116	11,598,116	-
Transfers Out	3,571,570	(4,162,309)	(3,684,004)	(478,305)
Issuance of Long-Term Debt	-	-	-	-
Total Other Financing Sources (Uses)	1,973,454	7,435,807	7,914,112	(478,305)
Net Change in Fund Balance	10,175,920	5,337,074	16,704,225	10,410,540
Fund balance, beginning of year	23,510,792	23,510,792	23,510,792	-
Fund balance, end of year	\$ 33,686,712	\$ 28,847,866	\$ 40,215,017	\$ 10,410,540

City of Pontiac
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Budgetary Basis)
Major Streets Special Revenue Fund
For the Fiscal Year Ended June 30, 2023

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Revenues				
Federal Grants	\$ -	\$ -	\$ 24,219	24,219
State Grants	6,263,332	6,263,332	6,634,918	371,586
Investment Income (Loss)/ Interest Revenue	-	-	75,869	75,869
Other	-	-	632,129	632,129
Total revenues	6,263,332	6,263,332	7,367,134	1,103,802
Expenditures				
Public works	10,752,850	8,718,250	8,262,137	456,113
Total expenditures	10,752,850	8,718,250	8,262,137	456,113
Net Change in Fund Balance	(4,489,518)	(2,454,918)	(895,002)	647,689
Fund balance, beginning of year	6,638,713	6,638,713	6,638,713	-
Fund balance, end of year	\$ 2,149,195	\$ 4,183,795	\$ 5,743,711	\$ 647,689

City of Pontiac
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Budgetary Basis)
American Rescue Plan Act (ARPA) / Progress for Pontiac Special Revenue Fund
For the Fiscal Year Ended June 30, 2023

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Revenues				
Federal Grants	\$ -	\$ 15,992,716	\$ 10,480,756	(5,511,960)
Total revenues	-	15,992,716	10,480,756	(5,511,960)
Expenditures				
Public Works	-	5,992,716	480,756	5,511,960
Total expenditures	-	5,992,716	480,756	5,511,960
Other Financing Sources (Uses)				
Transfers Out	-	(10,000,000)	(10,000,000)	-
Total Other Financing Sources (Uses)	-	(10,000,000)	(10,000,000)	-
Net Change in Fund Balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

City of Pontiac
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Budgetary Basis)
VEBA Retiree Healthcare Opt Out Fund
For the Fiscal Year Ended June 30, 2023

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Revenues				
Other	\$ -	\$ -	\$ -	\$ -
Expenditures				
General Government	500,000	500,000	160,000	340,000
Net Change in Fund Bbalance	(500,000)	(500,000)	(160,000)	340,000
Fund balance, beginning of year	4,000,000	4,000,000	4,000,000	-
Fund balance, end of year	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ 3,840,000</u>	<u>\$ 340,000</u>

CITY OF PONTIAC
REQUIRED SUPPLEMENTAL INFORMATION
REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM AND GENERAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
DETERMINED AS OF THE PLAN YEAR ENDED JUNE 30,

	RGERS	RGERS	RGERS	RGERS	RGERS	RGERS	RGERS	RGERS	RGERS
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Service Cost	\$ 179,497	\$ 251,497	\$ 219,594	\$ 233,616	\$ 147,521	\$ 350,549	\$ 324,671	\$ 314,272	\$ 279,187
Interest	15,609,604	16,433,760	16,988,197	17,384,038	17,725,816	17,598,425	17,944,933	19,232,034	19,973,828
Changes in benefit terms	-	-	3,277,435	3,402,001	3,470,936	10,658,814	-	5,407,365	-
Differences between expected and actual experience	(1,166,602)	(6,037,890)	(2,528,619)	1,139,898	1,839,373	871,705	5,189,027	(23,548,600)	(2,538,358)
Changes in assumptions	(12,260,194)	-	40,406,912	-	-	-	15,686,953	9,124,140	-
Benefits payments, including refunds	(21,757,276)	(26,890,294)	(27,500,762)	(28,114,053)	(28,199,311)	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
Transfer of pension liability from GERS	270,854,065	-	-	-	-	-	-	-	-
Net change in total pension liability	251,459,094	(16,242,927)	30,862,757	(5,954,500)	(5,015,665)	2,562,581	12,026,050	(17,523,382)	(9,792,575)
Total pension liability - beginning of year	-	287,096,992	256,234,235	262,188,735	267,204,400	264,641,819	252,615,769	270,139,151	279,931,726
Total pension liability - end of year	\$ 251,459,094	\$ 270,854,065	\$ 287,096,992	\$ 256,234,235	\$ 262,188,735	\$ 267,204,400	\$ 264,641,819	\$ 252,615,769	\$ 270,139,151
Plan Fiduciary Net Position									
Contributions - Employer	-	-	-	-	-	-	-	-	-
Contributions - Member	-	-	-	-	-	-	-	-	-
Net Investment income (loss)	(38,420,607)	84,736,747	65,127,780	87,393,680	(23,328,559)	67,868,606	34,606,547	(3,414,613)	29,460,854
Administrative expenses	(622,141)	(799,944)	(652,449)	(691,928)	(770,714)	(696,340)	(683,083)	(954,593)	(699,715)
Benefit payments, including refunds	(21,757,276)	(26,890,294)	(27,500,762)	(28,114,053)	(28,199,310)	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
Plan-to-plan resource movement	443,006,450	(8,000,000)	-	-	-	-	-	-	-
Other	30,408	41,963	107,539	55,649	35,826	29,291	5,748	37,357	-
Net change in plan fiduciary net position	382,236,834	49,088,472	37,082,108	58,643,348	(52,262,757)	40,284,645	6,809,678	(32,384,442)	1,253,907
Plan fiduciary net position - beginning of year	-	549,899,376	512,817,268	454,173,920	506,436,677	466,152,032	459,342,354	491,726,796	490,472,889
Plan fiduciary net position - end of year	\$ 382,236,834	\$ 598,987,848	\$ 549,899,376	\$ 512,817,268	\$ 454,173,920	\$ 506,436,677	\$ 466,152,032	\$ 459,342,354	\$ 491,726,796
City of Pontiac net pension liability - Ending	\$ (130,777,740)	\$ (328,133,783)	\$ (262,802,384)	\$ (256,583,033)	\$ (191,985,185)	\$ (239,232,277)	\$ (201,510,213)	\$ (206,726,585)	\$ (221,587,645)
Plan fiduciary net position as a percentage of total pension liability	152.01%	221.15%	191.54%	200.14%	173.22%	189.53%	176.14%	181.83%	182.03%
Covered employee payroll	\$ 1,013,588	\$ 1,294,948	\$ 1,349,022	\$ 1,391,765	\$ 1,427,628	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
City's net pension liability as a percentage of covered payroll	-12902.46%	-25339.53%	-19480.96%	-18435.80%	-13447.84%	-16494.77%	-13081.07%	-13522.76%	-14989.95%

Notes:

The amounts presented for each fiscal year were determined as December 31 of the preceding year.

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.

City of Pontiac
Required Supplementary Information
Reestablished General Employees' Retirement System and General Employees' Retirement System
Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as Percentage of Covered- Employee Payroll
2023	* \$	-	\$ -	\$ -	0.0%
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.

*There are no participants in the GERS as of December 31, 2022, all participants were transferred to RERS on January 1, 2022.

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, 2022.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Price Inflation	2.00 percent
Salary increases	3.60 - 7.40 percent (includes wage inflation)
Investment rate of return	6.0 percent (net of investment expense)
Retirement age	Age-based table of rates are specific to the type of eligibility condition
Mortality	Actives: 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
REQUIRED SUPPLEMENTAL INFORMATION
POLICE AND FIRE RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
DETERMINED AS OF THE PLAN YEAR ENDED JUNE 30,**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Interest	\$ 17,156,249	\$ 17,521,865	\$ 17,278,079	\$ 17,523,601	\$ 17,768,283	\$ 18,015,944	\$ 18,142,691	\$ 17,667,136	\$ 17,801,885
Changes in benefit terms	-	-	627,852	666,543	464,793	765,616	780,417	1,179,108	-
Differences between expected and actual experience	(314,580)	281,827	1,610,674	(181,582)	(451,296)	(575,621)	2,964,382	4,777,253	67,662
Changes in assumptions	-	5,950,258	4,639,281	-556,186	(434,944)	(606,903)	(2,147,637)	3,437,195	-
Benefits payments, including refunds	(20,535,908)	(20,945,892)	(20,864,910)	(20,587,103)	(20,631,416)	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
Net change in total pension liability	(3,694,239)	2,808,058	3,290,976	(3,134,727)	(3,284,580)	(3,571,910)	(1,948,830)	7,309,438	(1,711,593)
Total pension liability - beginning of year	246,905,871	244,097,813	240,806,837	243,941,564	247,226,144	250,798,054	252,746,884	245,437,446	247,149,039
Total pension liability - end of year	\$ 243,211,632	\$ 246,905,871	\$ 244,097,813	\$ 240,806,837	\$ 243,941,564	\$ 247,226,144	\$ 250,798,054	\$ 252,746,884	\$ 245,437,446
Plan Fiduciary Net Position									
Contributions - Employer	3,709,236	4,745,450	1,835,294	2,133,428	2,412,557	1,773,627	2,041,923	2,327,949	901,797
Contributions - Member	-	-	-	-	-	-	-	-	-
Net Investment income (loss)	(22,165,562)	33,115,699	19,678,345	33,045,584	(7,116,516)	28,866,568	18,343,180	1,600,942	15,235,786
Administrative expenses	(339,425)	(306,187)	(365,072)	(297,302)	(257,590)	(310,593)	(300,220)	(328,225)	(332,389)
Benefit payments, including refunds	(20,535,908)	(20,945,892)	(20,864,910)	(20,587,103)	(20,631,416)	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
Other	-	1,350	1,482	3,583	10,085	5,188	25,735	937	40,754
Net change in plan fiduciary net position	(39,331,659)	16,610,420	285,139	14,298,190	(25,582,880)	9,163,844	(1,578,065)	(16,149,651)	(3,735,192)
Plan fiduciary net position - beginning of year	237,832,010	221,221,590	220,936,451	206,638,261	232,221,141	223,057,297	224,635,362	240,785,013	244,520,205
Plan fiduciary net position - end of year	\$ 198,500,351	\$ 237,832,010	\$ 221,221,590	\$ 220,936,451	\$ 206,638,261	\$ 232,221,141	\$ 223,057,297	\$ 224,635,362	\$ 240,785,013
City of Pontiac net pension liability - Ending	\$ 44,711,281	\$ 9,073,861	\$ 22,876,223	\$ 19,870,386	\$ 37,303,303	\$ 15,005,003	\$ 27,740,757	\$ 28,111,522	\$ 4,652,433
Plan fiduciary net position as a percentage of total pension liability	81.62%	96.32%	90.63%	91.75%	84.71%	93.93%	88.94%	88.88%	98.10%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's net pension liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%	0%	0%	0%

Notes:

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

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

Assumption Changes. During fiscal year 2017, the Retirement System used the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2016, as compared to the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2015 used in fiscal year 2016. During fiscal year 2018, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2017. During fiscal year 2019, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2018. During fiscal year 2020, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2019. During fiscal year 2021, the Retirement System used the Pub-S 2010 Mortality Table with generational improvements using scale MP-2020. During fiscal years 2022, and 2023, the Retirement System used the Pub-S 2010 Mortality Table with generational improvements using scale MP-2021.

City of Pontiac
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 Employee Payroll	Contributions as Percentage of Covered- Employee Payroll
2023	\$ 2,496,606	\$ 3,709,236	\$ 1,212,630	\$ -	0.0%
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 the City's year end of June 30, two and one-half years prior to the end of the fiscal year in which the contributions are reported. Contributions for the City's fiscal year ended June 30, 2022 were determined based on the actuarial valuation as of December 31, 2019. The most recent valuation is as of December 31, 2022.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, level dollar
Asset valuation method	Market value of assets with a 5-year phase in of gains and losses, subject to a 20% corridor
Investment rate of return	7.50%, net of investment expenses
Mortality - Health	RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-
Mortality - Disabled	RP-2014 Disabled Mortality with generational improvements using scale MP-2019
Other information	Cost of living adjustments are 2.0 percent of original pension amounts at retirement for certain plan members applied to years of retirement.

CITY OF PONTIAC
REQUIRED SUPPLEMENTAL INFORMATION
CITY OF PONTIAC VEBA TRUST
SCHEDULE OF CHANGES IN THE NET OPEB (ASSET) LIABILITY
DETERMINED AS OF THE PLAN YEAR ENDED JUNE 30,

	2023	2022
Total OPEB Liability		
Interest on Total OPEB Liability	\$ 4,371,821	\$ 6,302,330
Difference between expected and actual experience	-	(7,334,838)
Changes in assumptions	-	(10,481,223)
Benefits payments, including refunds	(5,540,082)	(4,974,321)
Net change in total OPEB liability	(1,168,261)	(16,488,052)
Total OPEB liability - beginning of year	69,985,216	86,473,268
Total OPEB liability - end of year	\$ 68,816,955	\$ 69,985,216
Plan Fiduciary Net Position		
Contributions - Employer	-	119,425,585
Contributions - Member	-	-
Net Investment income (loss)	3,666,544	(7,716,614)
Administrative expenses	(547,664)	(625,332)
Benefit payments, including refunds	(3,195,286)	(585,400)
Other	(200,000)	-
Net change in plan fiduciary net position	(276,406)	110,498,239
Plan fiduciary net position - beginning of year	110,498,239	-
Plan fiduciary net position - end of year	\$ 110,221,833	\$ 110,498,239
City of Pontiac net OPEB liability - Ending	\$ (41,404,878)	\$ (40,513,023)
Plan fiduciary net position as a percentage of total OPEB liability	160.17%	157.89%
Covered employee payroll	\$ -	\$ -
City's net OPEB liability as a percentage of covered payroll	N/A	N/A

Notes:

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

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

City of Pontiac
Required Supplementary Information
City of Pontiac VEBA Trust
Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered Employee Payroll	Contributions as Percentage of Covered- Employee Payroll
2023	\$ -	\$ -	\$ -	\$ -	0.0%
2022	4,974,321	85,450,811	80,476,490	-	0.0%

Notes:

Actuarially determined contribution rates shown above are calculated as of the beginning of the plan year in which contributions are reported.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, 2022

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal, level dollar
Asset valuation method	Market value
Discount rate	6.50 percent
Mortality rates	Pub-2010 Mortality Tables, Public Safety or General as applicable, projected generationally with MP-2021.
Salary increases	N/A; all participants have retired or terminated employment.
Medical inflation	Non-Medicare: initial rate of 7.50%, decreasing 0.50% per year to a 4.50% long-term rate. Medicare: Initial rate of 6.50%, decreasing 0.50% per year to 4.50% long-term rate.
Retirement rates	N/A; all participants have retired or terminated employment.
Termination rates	N/A; all participants have retired or terminated employment.
Disability rates	N/A; all participants have retired or terminated employment.
Marital status	Marital status and spousal coverage is based on actual spousal information data provided by City.

CITY OF PONTIAC
REQUIRED SUPPLEMENTAL INFORMATION
POLICE AND FIRE RETIREMENT SYSTEM VEBA
SCHEDULE OF CHANGES IN THE NET OPEB (ASSET) LIABILITY
DETERMINED AS OF THE PLAN YEAR ENDED JUNE 30,

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Interest on Total OPEB Liability	\$ 2,745,353	\$ 2,188,092	\$ 2,812,830	\$ 2,857,872	\$ 2,983,381	\$ 2,890,913
Difference between expected and actual experience	(494,950)	8,704,264	(8,263,788)	(1,140,426)	(2,597,547)	3,832,503
Changes in assumptions	-	6,134,492	-	(3,059,994)	(2,409,464)	551,988
Benefits payments, including refunds	(4,705,967)	(3,239,940)	(2,530,663)	(2,614,513)	(2,304,955)	(1,887,615)
Net change in total OPEB liability	(2,455,564)	13,786,908	(7,981,621)	(3,957,061)	(4,328,585)	5,387,789
Total OPEB liability - beginning of year	44,552,146	30,765,238	38,746,859	42,703,920	47,032,505	41,644,716
Total OPEB liability - end of year	\$ 42,096,582	\$ 44,552,146	\$ 30,765,238	\$ 38,746,859	\$ 42,703,920	\$ 47,032,505
Plan Fiduciary Net Position						
Contributions - Employer	-	-	-	-	4,073,975	-
Contributions - Member	-	-	-	-	-	-
Net Investment income (loss)	(6,075,914)	7,043,169	3,023,527	6,263,203	(2,848,439)	4,508,528
Administrative expenses	(94,821)	(94,449)	(46,032)	(49,079)	(55,482)	(95,449)
Benefit payments, including refunds	(4,705,967)	(3,239,940)	(2,530,663)	(2,614,513)	(2,304,955)	(1,887,615)
Other	2,380	15,628	161,792	3,081	29,049	845
Net change in plan fiduciary net position	(10,874,322)	3,724,408	608,624	3,602,692	(1,105,852)	2,526,309
Plan fiduciary net position - beginning of year	47,781,918	44,057,510	43,448,886	39,846,194	40,952,046	38,425,737
Plan fiduciary net position - end of year	\$ 36,907,596	\$ 47,781,918	\$ 44,057,510	\$ 43,448,886	\$ 39,846,194	\$ 40,952,046
City of Pontiac net OPEB liability - Ending	\$ 5,188,986	\$ (3,229,772)	\$ (13,292,272)	\$ (4,702,027)	\$ 2,857,726	\$ 6,080,459
Plan fiduciary net position as a percentage of total OPEB liability	87.67%	107.25%	143.21%	112.14%	93.31%	87.07%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's net OPEB liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

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

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

Assumption Changes. In 2018, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.10 percent to 6.50 percent. In 2019, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.50 percent to 6.90 percent. In 2020, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.90 percent to 7.50 percent 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 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.

City of Pontiac
Required Supplementary Information
Police and Fire Retirement System VEBA
Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered Employee Payroll	Contributions as Percentage of Covered- Employee Payroll
2023	\$ -	\$ -	\$ -	\$ -	0.0%
2022	-	-	-	-	0.0%
2021	-	-	-	-	0.0%
2020	-	2,925,244	2,925,244	-	0.0%
2019	82,480	-	(82,480)	-	0.0%
2018	287,012	-	(287,012)	-	0.0%

Notes:

The amount shown as contributions for 2019 relate to the court judgement against the City for 2012 contributions, which was partially received in 2019.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the calendar year in which the contributions are

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal, level percent of salary
Amortization method	Level dollar
Remaining amortization period	27 years
Asset valuation method	Market value
Inflation	2.50 percent
Health care cost trend rates	7.00 percent decreasing 0.5 percent per year to an ultimate rate of 4.50 percent for 2028 and later years
Investment rate of return	6.50 percent
Mortality	Various SOA Pub-2010 headcount-weighted tables fully generational using Scale MP-2021

OTHER SUPPLEMENTAL INFORMATION

City of Pontiac
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds							
	Local Streets	Youth Recreation	Senior Activities	Sanitation	Cable	Building Inspection	Community Development Block Grant	Home Buyers Assistance
Assets								
Cash and investments	\$ 1,467,693	\$ 2,064,196	\$ 1,008,220	\$ 7,994,273	\$ 891,545	\$ 3,264,376	\$ 30,460	\$ 27,360
Accounts receivable	-	8,013	-	434,256	28,891	-	-	-
Taxes receivable, net	-	120,895	41,757	641,245	-	-	-	-
Interest receivable	11,310	-	-	56,634	-	-	-	-
Due from other governments	342,003	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Prepays	-	-	593	-	109	-	-	-
Restricted assets	-	-	-	-	-	-	-	-
Total assets	\$ 1,821,006	\$ 2,193,104	\$ 1,050,570	\$ 9,126,408	\$ 920,545	\$ 3,264,376	\$ 30,460	\$ 27,360
Liabilities								
Accounts payable	\$ 72,151	\$ 27,878	\$ 36,924	\$ 282,560	\$ 24,634	\$ 69,402	\$ -	\$ -
Accrued wages	5,576	8,413	4,735	1,343	2,337	26,578	-	-
Unearned revenue	-	380,000	133,646	-	-	-	-	-
Due to other governments	-	2,902	1,496	12,528	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Deposits payable	-	-	3,495	-	-	955	-	-
Total liabilities	77,727	419,193	180,296	296,431	26,971	96,935	-	-
Deferred inflows of resources								
Unavailable revenue	-	16,600	4,339	25,382	-	-	-	-
Fund Balances								
Nonspendable	-	-	593	-	109	-	-	-
Restricted	1,743,279	1,757,311	865,342	8,804,595	893,465	3,167,441	30,460	27,360
Committed	-	-	-	-	-	-	-	-
Total Fund Balances	1,743,279	1,757,311	865,935	8,804,595	893,574	3,167,441	30,460	27,360
Total liabilities, deferred inflows of resources and fund balances	\$ 1,821,006	\$ 2,193,104	\$ 1,050,570	\$ 9,126,408	\$ 920,545	\$ 3,264,376	\$ 30,460	\$ 27,360

**City of Pontiac
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023**

	Special Revenue Funds (continued)					Capital Projects	
	Drug Enforcement	District Court	MIDC Grant	PA-48 Tele- communications Allocation	Opiod Settlement	Capital Improvements	Total
Assets							
Cash and investments	\$ 207,603	\$ 277,587	\$ 86,432	\$ 23,222	\$ 194,282	\$ 5,114,194	\$ 22,651,443
Accounts receivable	-	-	-	-	-	-	471,160
Taxes receivable, net	-	-	-	-	-	117,728	921,625
Interest receivable	1,437	-	-	-	-	20,141	89,522
Due from other governments	-	-	-	-	-	-	342,003
Due from other funds	-	1,368,005	-	-	-	-	1,368,005
Prepays	-	296	-	-	-	-	998
Restricted assets	-	-	-	-	-	-	-
Total assets	\$ 209,040	\$ 1,645,888	\$ 86,432	\$ 23,222	\$ 194,282	\$ 5,252,063	\$ 25,844,756
Liabilities							
Accounts payable	\$ -	\$ 8,987	\$ 26,686	\$ -	\$ -	\$ 472,325	\$ 1,021,547
Accrued wages	-	35,518	1,542	-	-	-	86,042
Unearned revenue	-	-	52,866	-	-	418,949	985,461
Due to other governments	-	-	-	-	-	4,219	21,145
Due to other funds	-	-	-	-	-	-	-
Deposits payable	-	80,885	-	-	-	-	85,335
Total liabilities	-	125,390	81,094	-	-	895,493	2,199,530
Deferred inflows of resources							
Unavailable revenue	14	-	-	-	-	12,229	58,564
Fund Balances							
Nonspendable	-	296	-	-	-	-	998
Restricted	209,026	1,520,202	5,338	23,222	194,282	4,344,341	23,585,664
Committed	-	-	-	-	-	-	-
Total Fund Balances	209,026	1,520,498	5,338	23,222	194,282	4,344,341	23,586,662
Total liabilities, deferred inflows of resources and fund balances	\$ 209,040	\$ 1,645,888	\$ 86,432	\$ 23,222	\$ 194,282	\$ 5,252,063	\$ 25,844,756

City of Pontiac
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue Funds							
	Local Streets	Youth Recreation	Senior Activities	Sanitation	Cable	Building Inspection	Community Development Block Grant	Home Buyers Assistance
Revenues								
Property taxes and special assessments	\$ -	\$ 1,361,834	\$ 456,578	\$ 2,546,181	\$ -	\$ -	\$ -	\$ -
Federal revenue	-	-	160,354	-	-	-	-	-
State revenue	2,015,827	35,529	14,715	52,844	-	-	-	-
Charges for services	-	-	-	3,429,042	-	66,165	125	-
Fines and forfeitures	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	1,763,585	-	-
Investment income (loss)/interest revenue	55,865	-	16,080	224,818	33,482	22,698	-	-
Other revenue	157	98,125	17,050	-	153,518	-	-	3,722
Total revenues	2,071,849	1,495,488	664,777	6,252,885	187,000	1,852,448	125	3,722
Expenditures								
Current:								
General government	-	-	-	-	387,655	-	-	-
District court	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	1,899,059	-	-
Public works	2,189,338	-	-	4,369,259	-	-	-	-
Community and human services	-	-	693,247	-	-	-	-	-
Recreation and culture	-	685,473	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	2,189,338	685,473	693,247	4,369,259	387,655	1,899,059	-	-
Revenues over (under) expenditures	(117,489)	810,015	(28,470)	1,883,626	(200,655)	(46,611)	125	3,722
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(960,313)	-	-
Total other financing sources (uses)	-	-	-	-	-	(960,313)	-	-
Net changes in fund balances	(117,489)	810,015	(28,470)	1,883,626	(200,655)	(1,006,924)	125	3,722
Fund balances, beginning of year	1,860,768	947,296	894,405	6,920,969	1,094,229	4,174,365	30,335	23,638
Fund balances, end of year	\$ 1,743,279	\$ 1,757,311	\$ 865,935	\$ 8,804,595	\$ 893,574	\$ 3,167,441	\$ 30,460	\$ 27,360

City of Pontiac
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue Funds					Capital Projects	
	Drug Enforcement	District Court	MIDC Grant	PA-48 Tele-communication Allocation	Opioid Settlement	Capital Improvement	Total
Revenues							
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,288,626	\$ 5,653,219
Federal revenue	-	-	-	-	-	44,275	204,629
State revenue	-	136,293	-	-	-	35,570	2,290,778
Charges for services	-	578,013	-	-	-	-	4,073,345
Fines and forfeitures	42,410	934,295	-	-	-	-	976,705
Licenses and permits	-	-	-	-	-	-	1,763,585
Investment income (loss)/interest revenue	2,192	3,337	-	-	-	75,944	434,416
Other revenue	-	-	485,198	-	194,282	20,951	973,003
							-
Total revenues	44,602	1,651,938	485,198	-	194,282	1,465,366	16,369,680
Expenditures							
Current:							
General government	-	-	497,931	-	-	-	885,586
District court	-	2,848,481	-	-	-	-	2,848,481
Public safety	3,084	-	-	-	-	-	1,902,143
Public works	-	-	-	-	-	-	6,558,597
Community and human services	-	-	-	-	-	-	693,247
Recreation and culture	-	-	-	-	-	-	685,473
Capital outlay	-	-	-	-	-	940,776	940,776
Total expenditures	3,084	2,848,481	497,931	-	-	940,776	14,514,303
Revenues over (under) expenditures	41,518	(1,196,543)	(12,733)	-	194,282	524,590	1,855,377
Other financing sources (uses)							
Transfers in	-	2,300,000	18,071	-	-	-	2,318,071
Transfers out	-	(39,071)	-	-	-	-	(999,384)
Total other financing sources (uses)	-	2,260,929	18,071	-	-	-	1,318,687
Net changes in fund balances	41,518	1,064,386	5,338	-	194,282	524,590	3,174,064
Fund balances, beginning of year	167,508	456,112	-	23,222	-	3,819,751	20,412,598
Fund balances, end of year	\$ 209,026	\$ 1,520,498	\$ 5,338	\$ 23,222	\$ 194,282	\$ 4,344,341	\$ 23,586,662

City of Pontiac
Combining Statement of Net Position
Internal Service Funds
June 30, 2023

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Assets:				
Current assets:				
Cash and investments	\$ 1,575,564	\$ 51,409	\$ 821,234	\$ 2,448,207
Accounts receivable	330	1,012,388	-	1,012,718
Prepays	79,767	7,006,689	-	7,086,456
Total assets	1,655,661	8,070,486	821,234	10,547,381
Liabilities				
Current liabilities:				
Accounts payable	18,768	17,400	-	36,168
Accrued liabilities	166,114	875,847	-	1,041,961
Due to other funds	-	6,113,592	-	6,113,592
Current portion of compensated absences	-	-	205,309	205,309
Total Current Liabilities	184,882	7,006,839	205,309	7,397,030
Noncurrent liabilities:				
Compensated absences, net of current portion	-	-	615,925	615,925
Total liabilities	184,882	7,006,839	821,234	8,012,955
Net position				
Unrestricted	\$ 1,470,779	\$ 1,063,647	\$ -	\$ 2,534,426

City of Pontiac
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
June 30, 2023

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	\$ 374,944	\$ 4,200,381	\$ -	\$ 4,575,325
Other	-	777,792	-	777,792
Total operating revenue	374,944	4,978,173	-	5,353,117
Operating expenses				
Insurance	-	6,136,444	-	6,136,444
Workers' compensation	237,398	-	-	237,398
Total operating expenses	237,398	6,136,444	-	6,373,842
Change in net position	137,546	(1,158,271)	-	(1,020,725)
Net position, beginning of year	1,333,233	2,221,918	-	3,555,151
Net position, end of year	\$ 1,470,779	\$ 1,063,647	\$ -	\$ 2,534,426

City of Pontiac
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2023

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities				
Cash payments to suppliers	\$ (494,225)	\$ (4,633,337)	\$ -	\$ (5,127,562)
Cash received from interfund services	383,846	4,684,746	284,696	5,353,288
Net change in cash and investments	(110,379)	51,409	284,696	225,726
Cash and investments, beginning of year	1,685,943	-	536,538	2,222,481
Cash and investments, end of year	<u>\$ 1,575,564</u>	<u>\$ 51,409</u>	<u>\$ 821,234</u>	<u>\$ 2,448,207</u>
Reconciliation of operating income to net cash provided (used) in operating activities				
Operating income	\$ 137,546	\$ (1,158,271)	\$ -	\$ (1,020,725)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Change in:				
Accounts receivable	8,902	484,365	-	493,267
Prepays	(15,853)	(1,009,397)	-	(1,025,250)
Accounts payable	(146,716)	(37,778)	-	(184,494)
Accrued liabilities	(94,258)	757,026	-	662,768
Due to other funds	-	2,153,298	-	2,153,298
Interfund payable	-	(1,137,834)	-	(1,137,834)
Compensated absences	-	-	284,696	284,696
Net cash provided (used) in operating activities	<u>\$ (110,379)</u>	<u>\$ 51,409</u>	<u>\$ 284,696</u>	<u>\$ 225,726</u>

City of Pontiac
Combining Statement of Fiduciary Net Position
Custodial Funds
June 30, 2023

	District Court	Current Tax Collection	Total
Assets:			
Cash and investments	\$ 63,905	\$ (2,535)	\$ 61,370
Due from other governments	-	-	-
Accounts receivable	-	2,535	2,535
	<hr/>	<hr/>	<hr/>
Total assets	63,905	\$ -	63,905
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	-	-	-
Due to other governments	-	-	-
Deposits payable	63,905	-	63,905
	<hr/>	<hr/>	<hr/>
Total liabilities	63,905	-	63,905
	<hr/>	<hr/>	<hr/>
Net position			
Restricted for individuals, organizations and other governments	\$ -	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Pontiac
Combining Statement of Changes in Fiduciary Net Position
Custodial Funds
For the Year Ended June 30, 2023

	District Court	Current Tax Collection	Total
Additions			
Taxes collected for other governments	\$ -	\$ 29,240,303	\$ 29,240,303
Court collections	803,390	-	803,390
Total additions	803,390	29,240,303	30,043,694
Deductions			
Payments of taxes to other governments	-	29,240,303	29,240,303
Court distributions	803,390	-	803,390
Total deductions	803,390	29,240,303	30,043,694
Change in net position	-	-	-
Net position, beginning of year	-	-	-
Net position, end of year	\$ -	\$ -	\$ -

City of Pontiac
Combining Balance Sheet
Component Units
June 30, 2023

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Assets:					
Cash and investments	\$ 297	\$ 248,930	\$ 249,227	\$ 318,633	\$ 567,860
Property taxes receivable - net	-	-	-	-	-
Total assets	<u>\$ 297</u>	<u>\$ 248,930</u>	<u>\$ 249,227</u>	<u>\$ 318,633</u>	<u>\$ 567,860</u>
Liabilities					
Accounts payable	-	-	-	-	-
Due to other governments	-	967	967	18,654	19,621
Financial guarantee	3,698,859	3,594,809	7,293,668	-	7,293,668
Total liabilities	3,698,859	3,595,776	7,294,635	18,654	7,313,289
Deferred inflows of resources					
Unavailable revenue	-	-	-	-	-
Fund Balances					
Unassigned	(3,698,562)	(3,346,846)	(7,045,408)	299,979	(6,745,429)
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 297</u>	<u>\$ 248,930</u>	<u>\$ 249,227</u>	<u>\$ 318,633</u>	<u>\$ 567,860</u>

City of Pontiac
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
Component Units
June 30, 2023

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Fund balances (deficits) for component units	\$ (3,698,562)	\$ (3,346,846)	\$ (7,045,408)	\$ 299,979	\$ (6,745,429)
Amounts reported for component units 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	-	-	-	-	-
Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.	-	341,138	341,138	-	341,138
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	(2,415)	(98,327)	(100,742)	-	(100,742)
Bonds payable	(305,000)	(12,760,000)	(13,065,000)	-	(13,065,000)
Net position for component units	\$ (4,005,977)	\$ (15,864,035)	\$ (19,870,012)	\$ 299,979	\$ (19,570,033)

City of Pontiac
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Component Units
For the Year Ended June 30, 2023

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Revenues					
Taxes	\$ 35,409	\$ 1,676,926	\$ 1,712,335	3,384	\$ 1,715,719
State revenue	30,093	130,344	160,437	-	160,437
Charges for services	50,000	-	50,000	-	50,000
Contributions from primary government	219,534	547,667	767,201	-	767,201
Total revenues	335,036	2,354,937	2,689,973	3,384	2,693,357
Expenditures					
Financial guarantee	219,534	547,667	767,201	-	767,201
Debt service:					-
Principal	305,000	1,680,000	1,985,000	-	1,985,000
Interest and fiscal charges	29,738	673,963	703,701	-	703,701
Total expenditures	554,272	2,901,630	3,455,902	-	3,455,902
Net change in fund balances	(219,236)	(546,693)	(765,929)	3,384	(762,545)
Fund balances (deficit), beginning of year	(3,479,326)	(2,800,153)	(6,279,479)	296,595	(5,982,884)
Fund balances (deficit), end of year	\$ (3,698,562)	\$ (3,346,846)	\$ (7,045,408)	\$ 299,979	\$ (6,745,429)

City of Pontiac
Reconciliation of Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
Component Units
For the Year Ended June 30, 2023

	Tax Increment Finance Authority			Brownfield	
	District 2	District 3	Total	Redevelopment Authority	Total
Net change in fund balances - component units	\$ (219,236)	\$ (546,693)	\$ (765,929)	\$ 3,384	\$ (762,545)
Amounts reported for component units 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.	(2,040)	-	(2,040)	-	(2,040)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase 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	1,680,000	1,985,000	-	1,985,000
Some expenses reported in the statement of activities do not require use of current resources and therefore are not reported as expenditures in governmental funds.					
Change in accrued interest on bonds	2,541	14,001	16,542	-	16,542
Amortization of deferred charge on refunding	-	(42,642)	(42,642)	-	(42,642)
Change in net position of component units	\$ 86,265	\$ 1,104,666	\$ 1,190,931	\$ 3,384	\$ 1,194,315

**City of Pontiac
Single Audit
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For the Year Ended June 30, 2023**

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**INDEPENDENT AUDITOR'S 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**

To the Honorable Mayor and
Members of the City Council
City of Pontiac
Oakland County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of The City of Pontiac (the City) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2023.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
December 29, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Mayor and
Members of the City Council
City of Pontiac
Oakland County, Michigan

Opinion on Compliance for Each Major Federal Program

We have audited The City of Pontiac's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Compliance for Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance on each of the City's major federal programs. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to its federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
December 29, 2023

**CITY OF PONTIAC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor Pass through Grantor Program Title	Federal CFDA Number	Award Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2022	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2023
U.S. Department of Treasury							
Direct Funding							
Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)	21.027	SLFRP3789	\$ 37,717,953	\$ (18,858,977)	\$ 10,480,756	\$ 18,858,977	\$ (27,237,197)
Passed through Oakland County							
CSLFRF Funds allocated to Robert Bowens Community Center	21.027	SLFRP2640	144,000	-	83,384	144,000	(60,616)
CSLFRF Funds allocated to Ruth Peterson Community Center	21.027	SLFRP2640	150,000	-	76,970	150,000	(73,030)
CSLFRF Fund allocated for Skate Park Project	21.027	SLFRP2640	125,000	(125,000)	44,275	-	(80,725)
CSLFRF Fund allocated for Sanitary and Storm Sewer Project	21.027	SLFRP2640	500,000	-	250,000	-	250,000
Total U.S. Department of Treasury			<u>38,636,953</u>	<u>(18,983,977)</u>	<u>10,935,384</u>	<u>19,152,977</u>	<u>(27,201,569)</u>
U.S. Department of Transportation							
Passed through Southeast Michigan Council of Governments (SEMCOG)							
Highway Planning and Construction - Auburn Road Diet	20.205	693JJ22130000Z450MI21A0748	29,466	-	24,219	24,219	-
Total U.S. Department of Transportation			<u>29,466</u>	<u>-</u>	<u>24,219</u>	<u>24,219</u>	<u>-</u>
U.S. Office of National Drug Control Policy (ONDCP)							
Passed through Oakland County Narcotics Enforcement Team							
High Intensity Drug Trafficking Areas (HIDTA)	95.001	G22SM0002A	5,000	-	5,000	5,000	-
Total U.S. ONDCP			<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total All Funds			<u>\$ 38,671,419</u>	<u>\$ (18,983,977)</u>	<u>\$ 10,964,603</u>	<u>\$ 19,182,195</u>	<u>\$ (27,201,569)</u>

See Notes to Schedule of Expenditures of Federal Awards

CITY OF PONTIAC
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Pontiac (the City) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through entities, where applicable, have been identified in the Schedule.

Expenditures agree with amounts reported in the financial statements and the Schedule. See below for reconciliation of expenditures reported in the financial statements and on the Schedule.

Revenue reported on financial statements	\$ 11,000,087
Less: FBI gang overtime reimbursements not reported on the Schedule	(35,484)
Expenditure reported on the Schedule	<u><u>\$ 10,964,603</u></u>

**CITY OF PONTIAC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency (ies) identified that are
not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements
noted? ☐ Yes ☒ No

FEDERAL AWARDS

Internal Control Over Major Programs:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency(ies) identified that are
not considered to be material weaknesses? ☐ Yes ☒ None reported

**Type of Auditors' Report Issued on Compliance
for Major Program:** Unmodified

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR 200.516(a) ☐ Yes ☒ No

Identification of Major Programs

CFDA Number

21.027

**Name of Federal
Program/Cluster**

Coronavirus State and
Local Fiscal Recovery
Funds (CSLFRF)

**CITY OF PONTIAC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

**Dollar Threshold Used to
Distinguish Between Type
A and Type B Programs:**

\$ 750,000

Auditee qualified as low-risk
auditee?

☐ Yes ☒ No

CITY OF PONTIAC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023
(Continued)

GOVERNMENT AUDITING STANDARDS FINDINGS

None.

FEDERAL PROGRAM AUDIT FINDINGS

None.

**CITY OF PONTIAC
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

GOVERNMENT AUDITING STANDARDS FINDINGS

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 prior year audit, predecessor auditor 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.

Management's Response. The Finance Director has implemented new procedures to reconcile and adjust all the general ledger accounts at the year-end.

Auditor's Response. We concur with management's response.

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.

Management's Response. The city administration has increased the qualified staffing strength in the Finance department. Service of the external auditors will not be necessary to prepare financial statements in the current and future years.

Auditor's Response. We concur with management's response.

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.

Management's Response. The city administration has increased the qualified staffing strength in the Finance department. There will not be any delay in closing the books. The city will complete the FY 2023 audit on time.

Auditor's Response. We concur with management's response.

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.

Management's Response. The Finance Director has strengthened the internal control in this area by utilizing the security control feature in the BS&A. Currently, the BS&A General Ledger system will not allow the JE input and posting by the same finance staff member.

Auditor's Response. We concur with management's response.

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 to 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.

Management's Response. The city administration has increased the qualified staffing strength in the Finance department. However, the city needs to fill couple more vacancies in the Finance department to reach the full staffing level. In the interim, an external CPA firm is performing bank reconciliation function and the Senior Accountant in the Finance department review and finalize the reconciliation.

Auditor's Response. We concur with management's response.

FEDERAL PROGRAM AUDIT FINDINGS

None.



December 29, 2023

To the Honorable Mayor and
Members of the City Council
City of Pontiac
Oakland County, Michigan

We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Pontiac (the City) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to management discussion analysis, budgetary comparison schedules of major funds, schedule of pension contributions, schedule of the City's proportionate share of the net pension liability, schedule of other postemployment benefit (OPEB) contributions, and schedule of the City's proportionate share of the net OPEB liability, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on other supplementary information such as the nonmajor combining statements which accompany the financial statements but are not RSI. Our responsibility for these supplementary information, 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.

Planned Scope, Timing of the Audit, and Other

We performed our audit according to the planned scope and timing previously communicated in our discussion with the Mayor, City Council, and management and in our engagement letter about the audit scope and timing.

Qualitative Aspects of Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City are described in Note 1 to the financial statements.

We noted no transactions entered into by City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. 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 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.
- Management's estimate of landfill post-closure 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 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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of net pension liability
- The disclosure of net OPEB liability
- The disclosure of receivables and concentration risks

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has corrected all misstatements noted during the audit. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation

involves application of an accounting principle to governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion & Analysis, Budgetary Comparison Schedules of Major Funds, Schedule of The City of Pontiac Pension Contributions, Schedule of The City of Pontiac Proportionate Share of Net Pension Liability, Schedule of The City of Pontiac OPEB contributions, Schedule of The City of Pontiac Proportionate Share of Net OPEB Liability and notes to required supplementary information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the other supplemental information accompanying the financial statements that are not RSI, as shown in the table of contents, 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.

Restriction on Use

This information is intended solely for the use of Mayor, City Council and management of The City of Pontiac and is not intended to be, and should not be, used by anyone other than these specified parties.

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
December 29, 2023