

# **City of Pontiac, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2010**

# City of Pontiac, Michigan

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## INDEPENDENT AUDITORS' REPORT

December 30, 2010

To the Emergency Financial Manager of  
the City of Pontiac  
Pontiac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, which represents 99.7%, 100% and 100%, respectively, of the assets, net assets and additions of the Fiduciary Funds. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinions, insofar as they relate to the amounts included for the Retirement Systems and Health Trusts of the City, are based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

We were unable to obtain written representations from the current management of the City as the transactions for the year ended June 30, 2010 took place under substantially different management.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations been furnished to us by management, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has accumulated fund deficits in eight funds and in one component unit. Management's plans with regard to these matters are described in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010, on our consideration of the **City of Pontiac, Michigan's** 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison schedule for the General Fund and the pension system schedules of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pontiac's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations been furnished to us by management, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the beginning fund balance of the General Fund and the Governmental Activities net assets were increased by \$817,567 to account for investments that had not been previously recorded.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned above the page number.

# City of Pontiac, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Pontiac, Michigan's (the "City") financial performance written on December 20, 2010 provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2010:

- The General Fund's deficit decreased \$700,872 from June 30, 2009 to a deficit balance of \$4,089,199 at June 30, 2010. Significant components of the decrease are net of the following items: revenue exceeding expenditures by \$811,945, transfers out to other funds of \$3,408,175, proceeds from the sale of a community center of \$641,543, proceeds from the hospital lawsuit settlement of \$2,212,460, and proceeds from the sale of stock of \$443,099.
- An emergency financial manager was appointed March 19, 2009 to develop a plan to eliminate the current and cumulative deficit. See Note 16 for more detail.
- Property and income tax revenue decreased in the current year compared to the prior year from approximately \$26.3 million to approximately \$23.0 million.
- Fiscal year 2009 property tax revenue is based on December 31, 2007 taxable values and fiscal year 2010 property tax revenue is based on December 31, 2008 taxable values. Management expected significant decreases in future years due to the lag effect of economic conditions since December 31, 2007.
- The City's subsidy of the District Court operations decreased by approximately \$254,000 from the prior year's subsidy. Total subsidy in the current year was approximately \$2.2 million.
- The City received approximately \$2.2 million from the final lawsuit settlement relating to the sale of the North Oakland Medical Center.
- During the year, the human resources department discovered it was in possession of stock certificates it had received from an insurance company years ago when the company went public. The City sold the shares of stock held in April 2010 for a total of \$1,260,666, of which \$817,567 represented the market value at June 30, 2009 and was recorded as a prior period adjustment and \$443,099 was recorded as a special items revenue source at June 30, 2010.

# City of Pontiac, Michigan

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## Management's Discussion and Analysis (Continued)

### Using this Annual Report

This annual report consists of a series of four parts - management's discussion and analysis (this section), the basic financial statements, required supplemental information, and an optional section that presents combining statements for nonmajor governmental funds and Internal Service Funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The governmental fund statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the City operates like businesses, such as the water and sewer system.
  - Fiduciary fund statements provide information about the financial relationships, such as the retirement plan for the City's employees, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, the City has included a section with combining statements that provide details about nonmajor governmental funds and Internal Service Funds, each of which are added together and presented in single columns in the basic financial statements.

# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

### Government-wide Statements

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net assets (deficit) includes all the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads should be considered.

The government-wide financial statements of the City are divided into three categories:

- *Governmental activities* - Most of the City's basic services are included here, such as the police, fire, and public works departments, and general administration. Property taxes, state and federal grants, and licenses and permits finance most of these activities.
- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system, parking facilities, and golf course are included here.
- *Component units* - The City includes five other entities in its report - the Tax Increment Financing Authority, the Downtown Development Authority, the Economic Development Corporation, the Brownfield Redevelopment Authority, and the Pontiac Silverdome. Although legally separate, these "component units" are important because the City is financially accountable for them.

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (such as construction projects) or to show that it is properly using certain taxes and grants (i.e., aid from the U.S. Department of Housing and Urban Development).



# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
  - In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
  - The City uses Internal Service Funds (the other type of proprietary fund) to report activities that provide supplies and services for other programs and activities, such as the Equipment Revolving Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans and VEBA plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in millions of dollars):

|  | June 30        |                |                |                |                 |                 |
|--|----------------|----------------|----------------|----------------|-----------------|-----------------|
|  | Governmental   |                | Business-type  |                | Total           |                 |
|  | Activities     |                | Activities     |                |                 |                 |
|  | 2010           | 2009           | 2010           | 2009           | 2010            | 2009            |
| <b>Assets</b>                                    |                |                |                |                |                 |                 |
| Current and other                                | \$ 37.3        | \$ 40.2        | \$ 15.1        | \$ 13.6        | \$ 52.4         | \$ 53.8         |
| Capital assets                                   | <u>85.9</u>    | <u>84.8</u>    | <u>56.2</u>    | <u>54.4</u>    | <u>142.1</u>    | <u>139.2</u>    |
| Total assets                                     | 123.2          | 125.0          | 71.3           | 68.0           | 194.5           | 193.0           |
| <b>Liabilities</b>                               |                |                |                |                |                 |                 |
| Current liabilities                              | 17.0           | 15.2           | 4.7            | 2.7            | 21.7            | 17.9            |
| Long-term liabilities                            | <u>52.3</u>    | <u>51.3</u>    | <u>7.4</u>     | <u>7.6</u>     | <u>59.7</u>     | <u>58.9</u>     |
| Total liabilities                                | <u>69.3</u>    | <u>66.5</u>    | <u>12.1</u>    | <u>10.3</u>    | <u>81.4</u>     | <u>76.8</u>     |
| <b>Net Assets</b>                                |                |                |                |                |                 |                 |
| Invested in capital assets - Net of related debt | 79.2           | 76.8           | 50.3           | 47.3           | 129.5           | 124.1           |
| Restricted                                       | 16.4           | 17.3           | 2.0            | 3.1            | 18.4            | 20.4            |
| Unrestricted (deficit)                           | <u>(41.7)</u>  | <u>(35.6)</u>  | <u>6.9</u>     | <u>7.3</u>     | <u>(34.8)</u>   | <u>(28.3)</u>   |
| Total net assets                                 | <u>\$ 53.9</u> | <u>\$ 58.5</u> | <u>\$ 59.2</u> | <u>\$ 57.7</u> | <u>\$ 113.1</u> | <u>\$ 116.2</u> |

A portion of the net assets of the City's governmental activities is either restricted as to the purpose for which they can be used or they are invested in capital assets net of related debt.

Consequently, unrestricted net assets were a deficit of \$41.7 million in 2010. A deficit does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. The long-term commitments have been accrued as part of the governmental activities liabilities and will be paid in future years with future revenue sources as payments come due.

Although the unrestricted business-type net assets total \$6.9 million in 2010, these resources can only be used for their respective operations such as water or sewer operations and cannot be used to make up for declines in governmental net assets.

The City's combined net assets decreased 2.7 percent from a year ago - decreasing from \$116.2 million in 2009 to \$113.1 million in 2010. The decrease is comprised of a \$4.6 million decline in governmental activities net assets and a \$1.5 increase in business-type activities net assets.

# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

For governmental activities, the decrease is primarily due to the City implementing the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* in fiscal year 2009. The City was required to record \$4.4 million of OPEB liability and corresponding governmental activities expenditure in the current year, of which there are no accumulated assets to pay the liability. This is a liability of the governmental activities only and does not affect the General Fund.

For business-type activities, although charges for services revenue are down compared to 2009, net assets increased due to capital grant funding of \$4.9 million being received by the water and sewer operations in fiscal year 2010.

The following table shows the changes of the net assets during the current year (in millions of dollars):

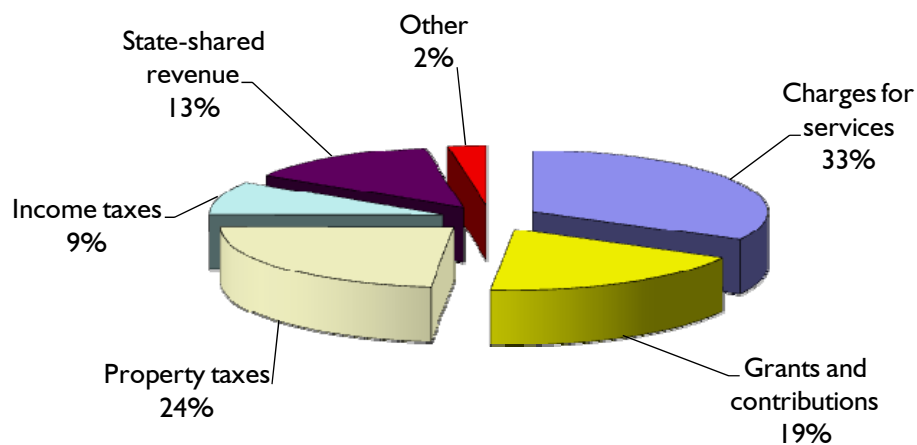
|  | Year Ended June 30      |                 |                          |                 |                 |                 |
|--|-------------------------|-----------------|--------------------------|-----------------|-----------------|-----------------|
|  | Governmental Activities |                 | Business-type Activities |                 | Total           |                 |
|  | 2010                    | 2009            | 2010                     | 2009            | 2010            | 2009            |
| <b>Revenue</b>                                 |                         |                 |                          |                 |                 |                 |
| Program revenue:                               |                         |                 |                          |                 |                 |                 |
| Charges for services                           | \$ 6.2                  | \$ 6.4          | \$ 19.5                  | \$ 23.1         | \$ 25.7         | \$ 29.5         |
| Operating grants and contributions             | 7.3                     | 7.9             | -                        | -               | 7.3             | 7.9             |
| Capital grants and contributions               | 2.7                     | 0.3             | 4.9                      | -               | 7.6             | 0.3             |
| General revenue:                               |                         |                 |                          |                 |                 |                 |
| Property taxes                                 | 18.6                    | 22.0            | (0.1)                    | -               | 18.5            | 22.0            |
| Income taxes                                   | 7.0                     | 11.5            | -                        | -               | 7.0             | 11.5            |
| State-shared revenue                           | 10.5                    | 11.8            | -                        | -               | 10.5            | 11.8            |
| Unrestricted investment earnings               | 0.5                     | 0.4             | -                        | 0.2             | 0.5             | 0.6             |
| Unrestricted cable revenue                     | 0.6                     | 0.6             | -                        | -               | 0.6             | 0.6             |
| Gain on sale of fixed assets                   | 0.4                     | -               | 0.2                      | -               | 0.6             | -               |
| Contribution from component units              | 0.4                     | 0.8             | -                        | -               | 0.4             | 0.8             |
| Miscellaneous                                  | -                       | 0.1             | -                        | 0.1             | -               | 0.2             |
| Total revenue                                  | 54.2                    | 61.8            | 24.5                     | 23.4            | 78.7            | 85.2            |
| <b>Program Expenses</b>                        |                         |                 |                          |                 |                 |                 |
| General government                             | 14.4                    | 15.0            | -                        | -               | 14.4            | 15.0            |
| Public safety                                  | 28.5                    | 30.8            | -                        | -               | 28.5            | 30.8            |
| Public works                                   | 12.4                    | 15.4            | -                        | -               | 12.4            | 15.4            |
| Community and human services                   | 4.9                     | 4.7             | -                        | -               | 4.9             | 4.7             |
| Interest on long-term debt                     | 1.3                     | 1.5             | -                        | -               | 1.3             | 1.5             |
| Water  | -                       | -               | 11.1                     | 12.7            | 11.1            | 12.7            |
| Sewer  | -                       | -               | 9.6                      | 11.6            | 9.6             | 11.6            |
| Parking  | -                       | -               | 1.6                      | 2.1             | 1.6             | 2.1             |
| Golf course                                    | -                       | -               | 0.7                      | 1.1             | 0.7             | 1.1             |
| Total program expenses                         | 61.5                    | 67.4            | 23.0                     | 27.5            | 84.5            | 94.9            |
| <b>Excess of Revenue (Under) Over Expenses</b> |                         |                 |                          |                 |                 |                 |
| Before Special Items                           | (7.3)                   | (5.6)           | 1.5                      | (4.1)           | (5.8)           | (9.7)           |
| <b>Special Items</b>                           | 2.7                     | 2.8             | -                        | -               | 2.7             | 2.8             |
| <b>Change in Net Assets</b>                    | <u>\$ (4.6)</u>         | <u>\$ (2.8)</u> | <u>\$ 1.5</u>            | <u>\$ (4.1)</u> | <u>\$ (3.1)</u> | <u>\$ (6.9)</u> |

# City of Pontiac, Michigan

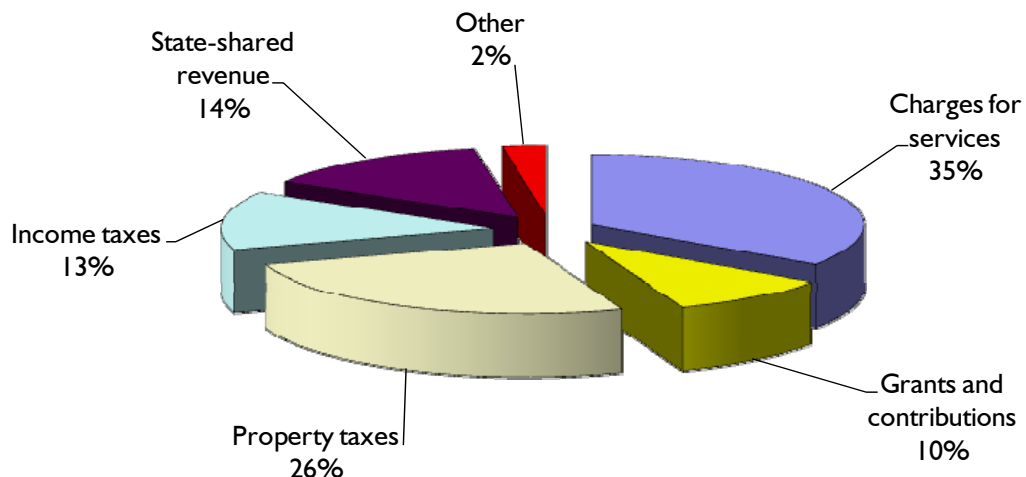
## Management's Discussion and Analysis (Continued)

As illustrated in Figure 1, the City's largest source of revenue on a government-wide basis is charges for services, followed by property taxes, grants and contributions, state-shared revenue, and income taxes, respectively.

**Figure 1**  
**CITY OF PONTIAC, MICHIGAN**  
**Sources of Revenue - Government-wide**  
**Year Ended June 30, 2010**  
**Total Revenue - \$78.7 Million**



**Figure 2**  
**CITY OF PONTIAC, MICHIGAN**  
**Sources of Revenue - Government-wide**  
**Year Ended June 30, 2009**  
**Total Revenue - \$85.2 Million**

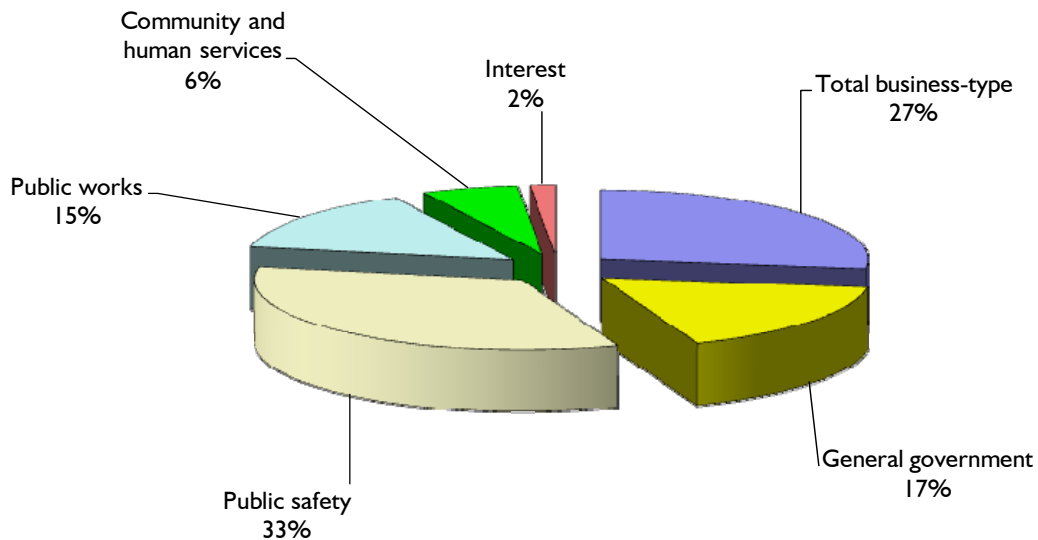


# City of Pontiac, Michigan

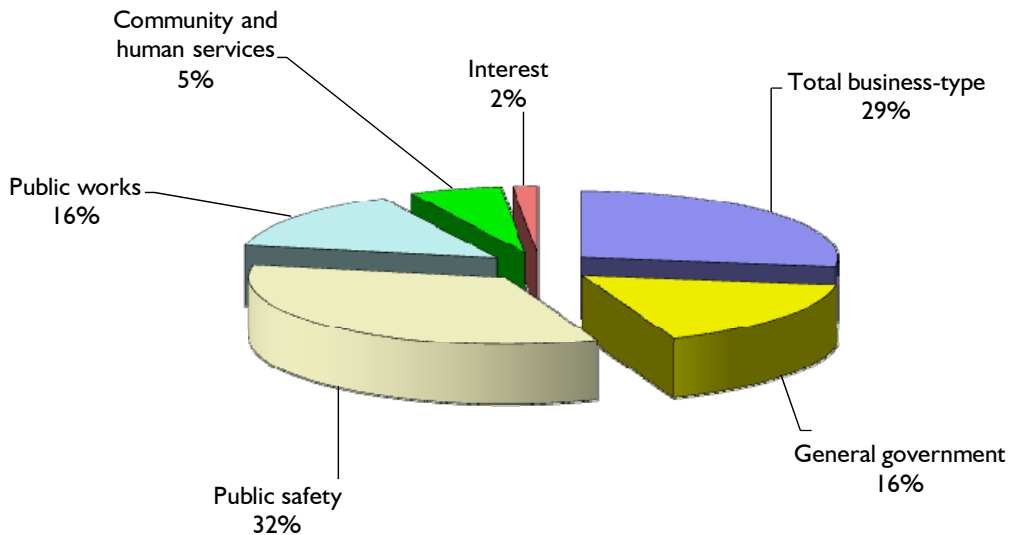
## Management's Discussion and Analysis (Continued)

As illustrated in Figure 3, the City's largest use of resources on a government-wide basis is public safety (police and fire protection), followed by the total business-type expenses, which is the total of the Water, Sewer, Parking, and Golf Course Funds.

**Figure 3**  
**CITY OF PONTIAC, MICHIGAN**  
**Expenses - Government-wide**  
**Year Ended June 30, 2010**  
**Total Expenses - \$84.5 Million**



**Figure 4**  
**CITY OF PONTIAC, MICHIGAN**  
**Expenses - Government-wide**  
**Year Ended June 30, 2009**  
**Total Expenses - \$94.9 Million**



# **City of Pontiac, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

Expenses for the City's governmental activities totaled \$61.5 million, which is an 8.8 percent decrease from last year's total of \$67.4 million. Expenses decreased due to public works expenses recorded in 2010 being \$3.0 million less than expenses recorded in 2009. Additionally, public safety and other postemployment benefit (OPEB) expenses recorded in 2010 are \$2.3 million and \$1.8 million less than the expense recorded in 2009, respectively.

Although the expenses of governmental activities decreased from prior year, revenue also decreased. Revenue totaled \$54.2 million for 2010, which is a decrease of \$7.6 million from last year's total of \$61.8 million. The decrease in revenue is primarily due to a decrease in property tax revenue as a result of a declining tax base and property tax lawsuits. Additionally, income tax revenue is down from 2009 as a result of the City adjusting revenue for estimated uncollectible receivables.

### **Business-type Activities**

The City's business-type activities consist of the Water, Sewer, Parking, and Golf Course Funds.

The City provides water to residents from the Detroit water system. The Water Fund rates were increased 9 percent in December 2009 to generate sufficient cash flows to cover the annual operating, maintenance, and replacement costs. The Water Fund had an operating loss of \$393,000 in 2010 compared to a loss of \$44,000 in 2009. Even though water rates were increased and operating expenses were reduced, consumption was down in 2010 and the City adjusted revenue for estimated uncollectible receivables resulting in an increase to the operating loss compared to 2009. The Water Fund received a \$3,425,000 Drinking Water Revolving Fund loan in 2010, of which 60 percent is debt which will be required to be paid back by the City. See the capital asset and debt administration section for more information.

The City provides sewage treatment through a City-owned and operated sewage treatment plant. The Sewer Fund rates were increased 29.8 percent in December 2009 to cover the annual operating, maintenance, and replacement costs. The Sewer Fund had an operating loss of \$1.55 million in 2010 compared to a loss of \$2.4 million in 2009. Similar to water operations, sewer sales revenue was down compared to prior year and revenue was adjusted for estimated uncollectible receivables. Sewer operating expenses decreased more significantly from 2009 to 2010 resulting in a decrease in the sewer operating loss from 2009 to 2010. The Sewer Fund received a \$15,775,000 Clean Water Revolving Fund loan in fiscal year 2010, of which 60 percent is debt which will be required to be paid back by the City. See the capital asset and debt administration section for more information.

The Parking Fund accounts for the activity of numerous City-owned parking lots and continues to rely on contributions from other City funds to offset operating losses. The operating loss for 2010 was approximately \$783,000, compared to \$1.1 million in 2009.

# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

The City-owned golf course sustained an operating loss in 2010 of approximately \$430,000 compared to \$337,000 in 2009. The General Fund subsidized \$210,000 in 2010 compared to \$54,000 in 2009 to cover the cost of operations. In April 2010, the City leased the golf course operations to an outside management company. See Note 15 for more information. In addition, the 2000 Municipal Golf Course bonds are the responsibility of the golf course. The bond agreement states if the golf course does not have sufficient net income to pay the debt service on the bond, TIFA 4 will be responsible for the current year's debt service. During the current year, TIFA 4 paid the debt service of approximately \$759,000.

### **The City's Funds**

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages or grants. The only major governmental fund for the year ended June 30, 2010 is the General Fund.

The General Fund's June 30, 2010 deficit decreased by approximately \$701,000 from June 30, 2009. The decrease in the deficit is comprised of several items described below. Even though the General Fund is showing a decrease to the deficit in 2010, the City failed to show unfunded future obligations in its deficit elimination plan which will significantly increase the deficit amount. The deficit elimination plan did not show items such as property tax lawsuit refunds and General Fund subsidies needed for Parking and TIFA Fund deficits.

The decrease in the deficit of approximately \$701,000 resulted from the following activity in 2010:

**Operating Revenue and Expenditures** - The General Fund had total revenue of \$37.8 million and total expenses of \$37.0 million in 2010 compared to \$43.4 million in revenue and \$41.0 million in expenses in 2009. Property and income taxes are \$23.0 million, or 61 percent, of General Fund revenue in 2010. Property and income taxes decreased 12.4 percent from 2009 due to economic conditions impacting the property and income tax base and the City recognizing an estimated General Motors (GM) property tax refund of \$1.1 million in the General Fund. The GM property tax refund was recognized upon a newly appointed emergency financial manager reviewing the City's financial condition in July 2010. In addition, state-shared revenue is \$10.4 million, or 28 percent, of General Fund revenue in 2010 and decreased 11 percent from 2009.

To keep up with declining revenue, General Fund expenditures were also reduced. The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$23.6 million in 2010 compared to \$25.7 million in 2009. These two service areas represent 64 percent of the General Fund's expenditures and are primarily funded through general revenue such as taxes and state-shared revenue. The City also incurred other cost-cutting measures City-wide through furlough days and by increasing employee medical benefit contributions.

# City of Pontiac, Michigan

## Management's Discussion and Analysis (Continued)

**Other Financing Uses** - The General Fund transferred a total of \$3.4 million to other funds, including an operating subsidy to the District Court of \$2.2 million in 2010. The City also received \$600,000 from the sale of a community center.

**Special Items** - The City received \$2.2 million from a hospital lawsuit settlement and \$443,000 from the sale of stock in 2010. See Notes 14 and 17 for more information.

The single most important measure of short-term financial health is unreserved fund balance of the General Fund. The following is the six-year history of fund balance for the General Fund:

|                              | June 30                |                       |                       |                       |                       |                       |
|------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                              | 2005                   | 2006                  | 2007                  | 2008                  | 2009                  | 2010                  |
| Fund balance (deficit):      |                        |                       |                       |                       |                       |                       |
| Unreserved                   | \$ (31,761,547)        | \$ (4,177,203)        | \$ (6,142,240)        | \$ (7,071,957)        | \$ (4,790,071)        | \$ (4,089,199)        |
| Reserved                     | 64,000                 | 64,000                | 64,000                | 64,000                | -                     | -                     |
| Total fund balance (deficit) | <u>\$ (31,697,547)</u> | <u>\$ (4,113,203)</u> | <u>\$ (6,078,240)</u> | <u>\$ (7,007,957)</u> | <u>\$ (4,790,071)</u> | <u>\$ (4,089,199)</u> |

The 2006 improvement was primarily attributable to the issuance of fiscal stabilization bonds, as well as a structure repayment for the GM tax appeal obligation.

In 2009, the City recorded a prior period adjustment of \$817,000, decreasing the fund deficit relating to value of stock held. See Note 17 for more information.

### **General Fund Budgetary Highlights**

As noted above, the General Fund generated a surplus of \$701,000 during the year ended June 30, 2010 and recorded a prior period adjustment of \$817,000, decreasing the cumulative deficit to \$4,089,199. Actual revenue was more than budget by approximately \$98,000 primarily due to other revenue, including the proceeds from the hospital lawsuit settlement and sale of a community center exceeding the budget by \$1.5 million and income tax revenue exceeding the budget by \$1.0 million. These favorable variances were offset by property tax revenue, state-shared revenue, charges for services, charges to other funds for administrative services, and transfers from other funds being less than budget by approximately \$2.4 million.

Total expenditures were more than budget by approximately \$1.4 million. The City kept expenses within or under budget in most areas by monitoring expenses closely during the year except for two areas that were over budget. General and special programs were over budget by \$2.6 million due to anticipated wage and fringe benefit cost savings not being realized, and General Fund administrative charge reimbursement from General Fund divisions was over budget due to the City not amending the budget for the final administrative cost allocation method adopted.

See the economic factors and next year's budgets and rates section for more information on City plans to eliminate the deficit.



# **City of Pontiac, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

At the end of 2010, the City had invested \$11.2 million in a broad range of capital assets including land and improvements, buildings and improvements, equipment, roads, street signs, bridges, sidewalks, furniture, vehicles, and water and sewer lines.

New debt incurred during the year included a Water Fund \$3,425,000 Drinking Water Revolving Fund loan, of which the first 40 percent spent, or \$1,370,000, is considered principal forgiveness/grant funds that are not required to be paid back by the City. The remaining 60 percent, or \$2,055,000, is debt which will be required to be paid back by the City. The Water Fund spent \$564,000 in 2010 which is all considered principal forgiveness/grant funding.

The Sewer Fund also incurred new debt relating to a \$15,775,000 Clean Water Revolving Fund loan, of which the first 40 percent spent, or \$6,310,000, is considered principal forgiveness/grant funds that are not required to be paid back by the City. The remaining 60 percent, or \$9,465,000, is debt which will be required to be paid back by the City. The Sewer Fund spent \$4.4 million in 2010 which is all considered principal forgiveness/grant funding.

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

As previously discussed, the General Fund's cumulative deficit decreased from \$4.8 million to \$4.1 million for the year ended June 30, 2010. The City's adopted budget for the 2011 fiscal year is being continuously reviewed by the emergency financial manager. The significant revenue decreases are projected to continue for several more years. Economic conditions statewide driving these decreases continue to be a challenge for the City in fiscal year 2011 and beyond.

### **Contacting the City's Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. The period covered coincides with the term of emergency financial manager Fred Leeb (March 19, 2009-June 30, 2010). The emergency financial manager serving at the time this letter is written for presentation (Michael L. Stampfler) began serving on July 4, 2010. If you have questions about this report or need additional information, contact the City of Pontiac, Michigan's finance director's office, 47450 Woodward Ave., Pontiac, Michigan 48342.

# City of Pontiac, Michigan

## Statement of Net Assets (Deficit) June 30, 2010

|  | Primary Government         |                             | Total          | Component Units |
|--|----------------------------|-----------------------------|----------------|-----------------|
|  | Governmental<br>Activities | Business-type<br>Activities |                |                 |
| <b>Assets</b>  |                            |                             |                |                 |
| Cash and investments (Note 3)                        | \$ 19,162,562              | \$ 3,926,785                | \$ 23,089,347  | \$ 5,796,363    |
| Receivables - Net (Note 4):                          |                            |                             |                |                 |
| Property and income taxes                            | 1,477,985                  | 9,548                       | 1,487,533      | 30,091          |
| Customer receivables                                 | -                          | 7,994,980                   | 7,994,980      | -               |
| Special assessments receivable                       | -                          | 62,549                      | 62,549         | -               |
| Other receivables                                    | 7,013,323                  | 26,420                      | 7,039,743      | -               |
| Internal balances                                    | (48,562)                   | 48,562                      | -              | -               |
| Due from other governmental units                    | 6,230,168                  | 1,381,924                   | 7,612,092      | -               |
| Prepaid and other assets                             | 365,172                    | -                           | 365,172        | -               |
| Restricted assets (Note 8)                           | 2,499,004                  | 1,712,621                   | 4,211,625      | -               |
| Long-term lease receivable (Note 7)                  | 615,000                    | -                           | 615,000        | -               |
| Capital assets (Note 5):                             |                            |                             |                |                 |
| Nondepreciable capital assets                        | 27,681,278                 | 8,424,981                   | 36,106,259     | -               |
| Depreciable capital assets - Net                     | 58,155,374                 | 47,754,766                  | 105,910,140    | 6,304,180       |
| Total assets   | 123,151,304                | 71,343,136                  | 194,494,440    | 12,130,634      |
| <b>Liabilities</b>                                   |                            |                             |                |                 |
| Accounts payable                                     | 4,838,482                  | 4,002,610                   | 8,841,092      | 113             |
| Property taxes refund payable                        | 1,731,000                  | -                           | 1,731,000      | 2,320,000       |
| Other accrued liabilities                            | 9,229,909                  | 516,679                     | 9,746,588      | -               |
| Deposits   | 664,806                    | 53,276                      | 718,082        | 1,400           |
| Due to other governmental units                      | 577,577                    | -                           | 577,577        | -               |
| Accrued interest payable                             | -                          | 169,614                     | 169,614        | 331,233         |
| Deferred revenue (Note 4)                            | -                          | -                           | -              | 552,999         |
| Long-term liabilities (Note 7):                      |                            |                             |                |                 |
| Due within one year                                  | 5,682,973                  | 57,393                      | 5,740,366      | 2,165,000       |
| Due within one year - Payable from restricted assets | -                          | 515,000                     | 515,000        | -               |
| Due in more than one year                            | 46,576,096                 | 6,778,676                   | 53,354,772     | 51,937,855      |
| Total liabilities                                    | 69,300,843                 | 12,093,248                  | 81,394,091     | 57,308,600      |
| <b>Net Assets (Deficit)</b>                          |                            |                             |                |                 |
| Invested in capital assets - Net of related debt     | 79,215,070                 | 50,364,747                  | 129,579,817    | 6,304,180       |
| Restricted for:                                      |                            |                             |                |                 |
| Streets  | 918,082                    | -                           | 918,082        | -               |
| Sanitation   | 1,017,637                  | -                           | 1,017,637      | -               |
| Drains   | 900,280                    | -                           | 900,280        | -               |
| Senior activities                                    | 1,069,520                  | -                           | 1,069,520      | -               |
| Library  | 1,544,329                  | -                           | 1,544,329      | -               |
| Grants   | 449,387                    | -                           | 449,387        | -               |
| Capital projects                                     | 9,507,539                  | -                           | 9,507,539      | -               |
| Cable television                                     | 914,710                    | -                           | 914,710        | -               |
| Debt service   | -                          | 308,804                     | 308,804        | -               |
| Water and sewer bond reserves                        | -                          | 1,712,621                   | 1,712,621      | -               |
| Revolving loan program                               | -                          | -                           | -              | 1,251,104       |
| Unrestricted (deficit)                               | (41,686,093)               | 6,863,716                   | (34,822,377)   | (52,733,250)    |
| Total net assets (deficit)                           | \$ 53,850,461              | \$ 59,249,888               | \$ 113,100,349 | \$ (45,177,966) |

# City of Pontiac, Michigan

## Statement of Activities Year Ended June 30, 2010

| Functions/Programs                 | Expenses            | Program Revenue      |                                    |                                  | Net Expense            |
|------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|------------------------|
|                                    |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |                        |
| Primary government:                |                     |                      |                                    |                                  |                        |
| Governmental activities:           |                     |                      |                                    |                                  |                        |
| General government                 | \$ 14,367,959       | \$ 1,873,956         | \$ -                               | \$ -                             | \$ (12,494,003)        |
| Public safety                      | 28,491,700          | 2,853,836            | 418,038                            | -                                | (25,219,826)           |
| Public works                       | 12,393,212          | 1,317,652            | 4,052,587                          | 2,697,558                        | (4,325,415)            |
| Community and human services       | 4,913,527           | 176,747              | 2,792,074                          | -                                | (1,944,706)            |
| Interest on long-term debt         | 1,321,064           | -                    | -                                  | -                                | (1,321,064)            |
| Total governmental activities      | 61,487,462          | 6,222,191            | 7,262,699                          | 2,697,558                        | (45,305,014)           |
| Business-type activities:          |                     |                      |                                    |                                  |                        |
| Water                              | 11,113,260          | 10,559,684           | -                                  | 564,160                          | 10,584                 |
| Sewer                              | 9,647,687           | 7,814,365            | -                                  | 4,372,825                        | 2,539,503              |
| Parking                            | 1,649,537           | 866,417              | -                                  | -                                | (783,120)              |
| Golf course                        | 736,984             | 307,599              | -                                  | -                                | (429,385)              |
| Total business-type activities     | 23,147,468          | 19,548,065           | -                                  | 4,936,985                        | 1,337,582              |
| Total primary government           | <u>\$84,634,930</u> | <u>\$ 25,770,256</u> | <u>\$ 7,262,699</u>                | <u>\$ 7,634,543</u>              | <u>\$ (43,967,432)</u> |
| Component units:                   |                     |                      |                                    |                                  |                        |
| Tax Increment Financing Authority  | \$ 4,260,572        | \$ -                 | \$ 19,000                          | \$ -                             | \$ (4,241,572)         |
| Downtown Development Authority     | 265,576             | -                    | 1,002                              | -                                | (264,574)              |
| Economic Development Corporation   | 214,195             | -                    | -                                  | -                                | (214,195)              |
| Brownfield Redevelopment Authority | 54                  | -                    | -                                  | -                                | (54)                   |
| Pontiac Silverdome                 | 1,323,114           | 57,349               | -                                  | -                                | (1,265,765)            |
| Total component units              | <u>\$ 6,063,511</u> | <u>\$ 57,349</u>     | <u>\$ 20,002</u>                   | <u>\$ -</u>                      | <u>\$ (5,986,160)</u>  |

# City of Pontiac, Michigan

## Statement of Activities (Continued) Year Ended June 30, 2010

|   | Primary Government         |                             |                       | Component<br>Units     |
|---|----------------------------|-----------------------------|-----------------------|------------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                 |                        |
| Net expense from previous page  | \$ (45,305,014)            | \$ 1,337,582                | \$ (43,967,432)       | \$ (5,986,160)         |
| General revenue:  |                            |                             |                       |                        |
| Property taxes  | 18,624,999                 | (71,722)                    | 18,553,277            | 5,141,615              |
| Income taxes  | 7,037,508                  | -                           | 7,037,508             | -                      |
| State-shared revenue  | 10,515,488                 | -                           | 10,515,488            | -                      |
| Unrestricted investment earnings  | 452,266                    | 445                         | 452,711               | (433,747)              |
| Unrestricted cable revenue  | 603,615                    | -                           | 603,615               | -                      |
| Gain on sale of fixed assets  | 406,261                    | 169,503                     | 575,764               | -                      |
| Contribution from component units                                       | 396,079                    | -                           | 396,079               | -                      |
| Contribution from primary government                                    | -                          | -                           | -                     | 503,357                |
| Miscellaneous   | 5,791                      | 47,264                      | 53,055                | 17,595                 |
| Total general revenue   | 38,042,007                 | 145,490                     | 38,187,497            | 5,228,820              |
| Special items - Hospital settlement and sale of stock (Notes 14 and 17) | 2,655,559                  | -                           | 2,655,559             | -                      |
| Transfers   | (38,291)                   | 38,291                      | -                     | -                      |
| Total general revenue, special items,<br>and transfers                  | 40,659,275                 | 183,781                     | 40,843,056            | 5,228,820              |
| Change in Net Assets  | (4,645,739)                | 1,521,363                   | (3,124,376)           | (757,340)              |
| Net Assets (Deficit) - Beginning of year - As restated (Note 17)        | 58,496,200                 | 57,728,525                  | 116,224,725           | (44,420,626)           |
| Net Assets (Deficit) - End of year                                      | <u>\$ 53,850,461</u>       | <u>\$ 59,249,888</u>        | <u>\$ 113,100,349</u> | <u>\$ (45,177,966)</u> |

# City of Pontiac, Michigan

## Governmental Funds Balance Sheet June 30, 2010

|  | Major Fund           |                      |                      |
|--|----------------------|----------------------|----------------------|
|  |                      | Nonmajor             | Total                |
|  |                      | Governmental         | Governmental         |
|  | General Fund         | Funds                | Funds                |
| <b>Assets</b>                                  |                      |                      |                      |
| Cash and investments (Note 3)                  | \$ 839,287           | \$ 16,622,614        | \$ 17,461,901        |
| Receivables - Net (Note 4):                    |                      |                      |                      |
| Property and income taxes                      | 1,465,437            | 12,548               | 1,477,985            |
| Other receivables                              | 2,051,517            | 39,881               | 2,091,398            |
| Due from other governmental units              | 3,629,204            | 2,600,964            | 6,230,168            |
| Other assets                                   | -                    | 19,382               | 19,382               |
| Due from other funds (Note 6)                  | 2,309,016            | 511,771              | 2,820,787            |
| Due from other funds - Advances (Note 6)       | -                    | 3,732,148            | 3,732,148            |
| Restricted cash and cash equivalents (Note 8)  | -                    | 2,499,004            | 2,499,004            |
| Total assets                                   | <u>\$ 10,294,461</u> | <u>\$ 26,038,312</u> | <u>\$ 36,332,773</u> |
| <b>Liabilities and Fund Balances (Deficit)</b> |                      |                      |                      |
| <b>Liabilities</b>                             |                      |                      |                      |
| Accounts payable                               | \$ 1,969,540         | \$ 1,294,934         | \$ 3,264,474         |
| Property taxes refund payable                  | 1,150,000            | 581,000              | 1,731,000            |
| Other accrued liabilities                      | 881,626              | 294,769              | 1,176,395            |
| Deposits                                       | 664,806              | -                    | 664,806              |
| Due to other funds (Note 6)                    | 290                  | 2,869,059            | 2,869,349            |
| Due to other funds - Advances (Note 6)         | 7,932,148            | -                    | 7,932,148            |
| Due to other governmental units                | 577,577              | -                    | 577,577              |
| Deferred revenue                               | 1,207,673            | 1,065,502            | 2,273,175            |
| Total liabilities                              | 14,383,660           | 6,105,264            | 20,488,924           |
| <b>Fund Balances (Deficit)</b>                 |                      |                      |                      |
| Reserved for:                                  |                      |                      |                      |
| Landfill postclosure costs                     | -                    | 2,499,004            | 2,499,004            |
| Advances receivable                            | -                    | 3,732,148            | 3,732,148            |
| Unreserved, reported in:                       |                      |                      |                      |
| General Fund                                   | (4,089,199)          | -                    | (4,089,199)          |
| Special Revenue Funds                          | -                    | 6,013,291            | 6,013,291            |
| Capital Projects Funds                         | -                    | 7,688,605            | 7,688,605            |
| Total fund balances (deficit)                  | <u>(4,089,199)</u>   | <u>19,933,048</u>    | <u>15,843,849</u>    |
| Total liabilities and fund balances (deficit)  | <u>\$ 10,294,461</u> | <u>\$ 26,038,312</u> | <u>\$ 36,332,773</u> |

# City of Pontiac, Michigan

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## **Governmental Funds Reconciliation of Fund Balance of Governmental Funds to Net Assets of Governmental Activities Year Ended June 30, 2010**

|  |                             |
|--|-----------------------------|
| <b>Fund Balance - Total Governmental Funds</b>   | <b>\$ 15,843,849</b>        |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                             |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds   | 82,130,107                  |
| Long-term lease receivable from component unit to repay building authority bonds is not reported in the funds since the bonds payable are not recorded in the fund | 615,000                     |
| Accrued interest on long-term debt is not included in the governmental funds but is included in the government-wide statements                                     | (189,499)                   |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds  | (48,720,779)                |
| Certain receivables are expected to be collected over several years and are not available to pay current liabilities in the funds                                  | 2,273,175                   |
| Internal Service Funds are included as part of governmental activities   | <u>1,898,608</u>            |
| <b>Net Assets - Governmental Activities</b>  | <b><u>\$ 53,850,461</u></b> |

# City of Pontiac, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2010

|   | Major Fund -<br>General Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|------------------------------|-----------------------------------|--------------------------------|
| <b>Revenue</b>  |                              |                                   |                                |
| Taxes   | \$ 23,044,270                | \$ 5,627,881                      | \$ 28,672,151                  |
| Licenses and permits  | 1,483,918                    | -                                 | 1,483,918                      |
| Federal sources   | 1,209                        | 4,519,134                         | 4,520,343                      |
| State sources   | 10,686,931                   | 5,614,102                         | 16,301,033                     |
| Charges for services  | 1,914,250                    | 1,165,559                         | 3,079,809                      |
| Fines and forfeitures   | -                            | 1,825,889                         | 1,825,889                      |
| Investment income   | 1,380                        | 50,936                            | 52,316                         |
| Contribution from component units   | -                            | 1,184,436                         | 1,184,436                      |
| Other   | 674,390                      | 412,832                           | 1,087,222                      |
| Total revenue   | 37,806,348                   | 20,400,769                        | 58,207,117                     |
| <b>Expenditures</b>   |                              |                                   |                                |
| Current:  |                              |                                   |                                |
| General government  | 1,150,363                    | 61,223                            | 1,211,586                      |
| District court  | -                            | 3,804,520                         | 3,804,520                      |
| Public safety   | 23,576,277                   | 898,782                           | 24,475,059                     |
| Public works and utilities  | 1,463,445                    | 12,846,388                        | 14,309,833                     |
| Community development   | 1,453,222                    | 2,646,343                         | 4,099,565                      |
| Community and human services  | 275,670                      | 1,336,413                         | 1,612,083                      |
| General and special programs  | 6,413,456                    | 1,559,188                         | 7,972,644                      |
| Commercial and industrial development                                     | -                            | 224,716                           | 224,716                        |
| Debt service  | 2,158,613                    | 1,436,914                         | 3,595,527                      |
| Contribution to component units   | 503,357                      | -                                 | 503,357                        |
| Total expenditures  | 36,994,403                   | 24,814,487                        | 61,808,890                     |
| <b>Excess of Revenue Over (Under) Expenditures</b>                        | 811,945                      | (4,413,718)                       | (3,601,773)                    |
| <b>Other Financing Sources (Uses)</b>                                     |                              |                                   |                                |
| Transfers in  | -                            | 5,665,897                         | 5,665,897                      |
| Transfers out   | (3,408,175)                  | (2,272,709)                       | (5,680,884)                    |
| Sale of fixed assets  | 641,543                      | -                                 | 641,543                        |
| Total other financing sources (uses)                                      | (2,766,632)                  | 3,393,188                         | 626,556                        |
| <b>Special Items</b>  |                              |                                   |                                |
| Proceeds from hospital settlement (Note 14)                               | 2,212,460                    | -                                 | 2,212,460                      |
| Proceeds from sale of stock (Note 17)                                     | 443,099                      | -                                 | 443,099                        |
| Total special items   | 2,655,559                    | -                                 | 2,655,559                      |
| <b>Net Change in Fund Balances</b>  | 700,872                      | (1,020,530)                       | (319,658)                      |
| <b>Fund Balances (Deficit) - Beginning of year, as restated (Note 17)</b> | (4,790,071)                  | 20,953,578                        | 16,163,507                     |
| <b>Fund Balances (Deficit) - End of year</b>                              | <b>\$ (4,089,199)</b>        | <b>\$ 19,933,048</b>              | <b>\$ 15,843,849</b>           |

# City of Pontiac, Michigan

## **Governmental Funds** **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances (Deficit) of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2010**

|   |                              |
|---|------------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | <b>\$ (319,658)</b>          |
| 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: |                              |
| Capital outlay reported in governmental funds   | 6,462,400                    |
| Depreciation reported in the statement of activities  | (4,432,568)                  |
| Gain on disposal of fixed assets  | (235,284)                    |
| Certain revenue reported in the statement of activities in previous years did not provide current financial resources in the governmental funds                         | (3,853,213)                  |
| Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)                       | 2,294,092                    |
| Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds   | (4,443,990)                  |
| Increase in the landfill closure and postclosure costs is recognized in the statement of activities, but not in the governmental funds                                  | (21,979)                     |
| Amortization of bond discount is not recorded in governmental funds; in the statement of activities, this is recorded as an adjustment to interest expense              | 66,794                       |
| Interest expense is recorded when incurred in the statement of activities   | 661                          |
| Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities   | 910,132                      |
| Internal Service Funds are also included as governmental activities   | (1,073,126)                  |
| <b>Change in Net Assets of Governmental Activities</b>  | <b><u>\$ (4,645,739)</u></b> |



# City of Pontiac, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2010

|   | Major Funds   |               |               | Nonmajor Fund       |                           | Governmental<br>Activities -<br>Internal Service<br>Funds |
|---|---------------|---------------|---------------|---------------------|---------------------------|---|
|   | Water Fund    | Sewer Fund    | Parking Fund  | Golf Course<br>Fund | Total Enterprise<br>Funds |   |
| <b>Assets</b>   |               |               |               |                     |                           |   |
| Current assets:                                       |               |               |               |                     |                           |   |
| Cash and cash equivalents (Note 3)                    | \$ 2,642,699  | \$ 1,135,954  | \$ 96,052     | \$ 52,080           | \$ 3,926,785              | \$ 1,700,661  |
| Receivables - Net (Note 4):                           |               |               |               |                     |                           |   |
| Customer receivables                                  | 4,194,423     | 3,800,557     | -             | -                   | 7,994,980                 | -   |
| Taxes receivable                                      | -             | -             | 9,548         | -                   | 9,548                     | -   |
| Special assessments receivable                        | 15,536        | 47,013        | -             | -                   | 62,549                    | -   |
| Due from other governmental units                     | 86,520        | 1,295,404     | -             | -                   | 1,381,924                 | -   |
| Other receivables                                     | -             | 6,920         | 9,500         | 10,000              | 26,420                    | 4,921,925   |
| Due from other funds                                  | 25,562        | 23,000        | -             | -                   | 48,562                    | -   |
| Prepaid and other assets                              | -             | -             | -             | -                   | -                         | 345,790   |
| Total current assets                                  | 6,964,740     | 6,308,848     | 115,100       | 62,080              | 13,450,768                | 6,968,376   |
| Noncurrent assets:                                    |               |               |               |                     |                           |   |
| Restricted cash and cash equivalents                  | 886,378       | 826,243       | -             | -                   | 1,712,621                 | -   |
| Due from other funds - Advances (Note 6)              | -             | -             | -             | -                   | -                         | 4,200,000   |
| Nondepreciable capital assets (Note 5)                | 594,400       | 3,930,367     | 3,166,454     | 733,760             | 8,424,981                 | -   |
| Depreciable capital assets - Net (Note 5)             | 16,799,919    | 18,217,506    | 11,184,491    | 1,552,850           | 47,754,766                | 3,706,545   |
| Total noncurrent assets                               | 18,280,697    | 22,974,116    | 14,350,945    | 2,286,610           | 57,892,368                | 7,906,545   |
| Total assets  | 25,245,437    | 29,282,964    | 14,466,045    | 2,348,690           | 71,343,136                | 14,874,921  |
| <b>Liabilities</b>                                    |               |               |               |                     |                           |   |
| Current liabilities:                                  |               |               |               |                     |                           |   |
| Accounts payable                                      | 1,352,550     | 2,622,910     | 25,451        | 1,699               | 4,002,610                 | 1,574,008   |
| Accrued and other liabilities                         | 225,457       | 269,019       | 22,203        | -                   | 516,679                   | 7,864,015   |
| Deposits  | 1,454         | -             | 21,822        | 30,000              | 53,276                    | -   |
| Due to other funds                                    | -             | -             | -             | -                   | -                         | -   |
| Current portion of long-term debt                     | -             | 57,393        | -             | -                   | 57,393                    | 586,491   |
| Total current liabilities                             | 1,579,461     | 2,949,322     | 69,476        | 31,699              | 4,629,958                 | 10,024,514  |
| Noncurrent liabilities (Note 7):                      |               |               |               |                     |                           |   |
| Payable from restricted assets:                       |               |               |               |                     |                           |   |
| Accrued interest on long-term debt                    | 71,103        | 98,511        | -             | -                   | 169,614                   | -   |
| Current portion of long-term debt                     | 300,000       | 215,000       | -             | -                   | 515,000                   | -   |
| Long-term debt - Net of current portion               | 2,015,000     | 3,285,000     | 500,000       | -                   | 5,800,000                 | 2,951,799   |
| Other postemployment benefit obligation               | 522,159       | 384,522       | 71,995        | -                   | 978,676                   | -   |
| Total noncurrent liabilities                          | 2,908,262     | 3,983,033     | 571,995       | -                   | 7,463,290                 | 2,951,799   |
| Total liabilities                                     | 4,487,723     | 6,932,355     | 641,471       | 31,699              | 12,093,248                | 12,976,313  |
| <b>Net Assets</b>                                     |               |               |               |                     |                           |   |
| Investment in capital assets - Net of<br>related debt | 15,079,319    | 18,647,873    | 14,350,945    | 2,286,610           | 50,364,747                | 168,255   |
| Restricted  | 886,378       | 826,243       | 308,804       | -                   | 2,021,425                 | -   |
| Unrestricted  | 4,792,017     | 2,876,493     | (835,175)     | 30,381              | 6,863,716                 | 1,730,353   |
| Total net assets                                      | \$ 20,757,714 | \$ 22,350,609 | \$ 13,824,574 | \$ 2,316,991        | \$ 59,249,888             | \$ 1,898,608  |

# City of Pontiac, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2010

|  | Major Funds          |                      |                      | Nonmajor Fund       |                        | Governmental                        |
|--|----------------------|----------------------|----------------------|---------------------|------------------------|-------------------------------------|
|  | Water Fund           | Sewer Fund           | Parking Fund         | Golf Course Fund    | Total Enterprise Funds | Activities - Internal Service Funds |
| <b>Operating Revenue</b>                         |                      |                      |                      |                     |                        |                                     |
| Charges for services                             | \$ 10,559,684        | \$ 7,814,365         | \$ 866,417           | \$ 307,599          | \$ 19,548,065          | \$ 25,523,576                       |
| Other  | 21,086               | 46,476               | -                    | -                   | 67,562                 | -                                   |
| Total operating revenue                          | 10,580,770           | 7,860,841            | 866,417              | 307,599             | 19,615,627             | 25,523,576                          |
| <b>Operating Expenses</b>                        |                      |                      |                      |                     |                        |                                     |
| Purchased water                                  | 4,387,798            | -                    | -                    | -                   | 4,387,798              | -                                   |
| Operations and maintenance                       | 2,695,708            | 6,425,443            | 993,399              | 456,187             | 10,570,737             | 1,298,540                           |
| Insurance  | -                    | -                    | -                    | -                   | -                      | 23,871,092                          |
| Administrative expenses                          | 2,906,845            | 1,065,599            | 119,688              | 82,792              | 4,174,924              | 840,542                             |
| Depreciation                                     | 987,155              | 1,923,823            | 536,450              | 198,005             | 3,645,433              | 746,997                             |
| Total operating expenses                         | 10,977,506           | 9,414,865            | 1,649,537            | 736,984             | 22,778,892             | 26,757,171                          |
| <b>Operating Loss</b>                            | (396,736)            | (1,554,024)          | (783,120)            | (429,385)           | (3,163,265)            | (1,233,595)                         |
| <b>Nonoperating Revenue (Expenses)</b>           |                      |                      |                      |                     |                        |                                     |
| Property taxes                                   | -                    | -                    | (71,722)             | -                   | (71,722)               | -                                   |
| Interest revenue                                 | 542                  | -                    | 433                  | -                   | 975                    | 399,950                             |
| Interest expense                                 | (156,052)            | (232,822)            | -                    | (530)               | (389,404)              | (216,177)                           |
| Gain on sale of fixed assets                     | 158,753              | 10,750               | -                    | -                   | 169,503                | -                                   |
| Total nonoperating revenue (expenses)            | 3,243                | (222,072)            | (71,289)             | (530)               | (290,648)              | 183,773                             |
| <b>Loss - Before transfers</b>                   | (393,493)            | (1,776,096)          | (854,409)            | (429,915)           | (3,453,913)            | (1,049,822)                         |
| <b>Capital Contributions from Federal Grants</b> | 564,160              | 4,372,825            | -                    | -                   | 4,936,985              | -                                   |
| <b>Transfers</b>                                 |                      |                      |                      |                     |                        |                                     |
| Transfers in                                     | -                    | 60,180               | 76,448               | 210,000             | 346,628                | -                                   |
| Transfers out                                    | (124,067)            | (174,138)            | (10,132)             | -                   | (308,337)              | (23,304)                            |
| Total transfers                                  | (124,067)            | (113,958)            | 66,316               | 210,000             | 38,291                 | (23,304)                            |
| <b>Change in Net Assets</b>                      | 46,600               | 2,482,771            | (788,093)            | (219,915)           | 1,521,363              | (1,073,126)                         |
| <b>Net Assets - Beginning of year</b>            | 20,711,114           | 19,867,838           | 14,612,667           | 2,536,906           | 57,728,525             | 2,971,734                           |
| <b>Net Assets - End of year</b>                  | <b>\$ 20,757,714</b> | <b>\$ 22,350,609</b> | <b>\$ 13,824,574</b> | <b>\$ 2,316,991</b> | <b>\$ 59,249,888</b>   | <b>\$ 1,898,608</b>                 |

# City of Pontiac, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2010

|  | Major Funds         |                     |                     |                     | Nonmajor Fund       |  |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|--|
|  | Water Fund          | Sewer Fund          | Parking Fund        | Golf Course Fund    | Enterprise Funds    | Governmental Activities - Internal Service Funds |
| <b>Cash Flows from Operating Activities</b>                                    |                     |                     |                     |                     |                     |  |
| Receipts from customers  | \$ 11,919,370       | \$ 8,441,010        | \$ 873,573          | \$ 297,599          | \$ 21,531,552       | \$ 24,510,371                                    |
| Payments to employees  | (3,166,929)         | (3,852,129)         | (540,733)           | (138,346)           | (7,698,137)         | (677,364)  |
| Payments to suppliers  | (6,330,449)         | (1,624,125)         | (538,043)           | (429,443)           | (8,922,060)         | (21,922,834)                                     |
| Net cash provided by (used in) operating activities                            | 2,421,992           | 2,964,756           | (205,203)           | (270,190)           | 4,911,355           | 1,910,173  |
| <b>Cash Flows from Noncapital Financing Activities</b>                         |                     |                     |                     |                     |                     |  |
| Transfers from other funds   | -                   | 60,180              | 76,448              | 210,000             | 346,628             | -  |
| Transfers to other funds   | (124,067)           | (174,138)           | (10,132)            | -                   | (308,337)           | (23,304)   |
| Interfund loans - Proceeds and collections                                     | -                   | -                   | -                   | -                   | -                   | (650,000)  |
| Net cash (used in) provided by noncapital financing activities                 | (124,067)           | (113,958)           | 66,316              | 210,000             | 38,291              | (673,304)  |
| <b>Cash Flows from Capital and Related Financing Activities</b>                |                     |                     |                     |                     |                     |  |
| Capital contributions from federal grants                                      | 477,640             | 3,077,421           | -                   | -                   | 3,555,061           | -  |
| Purchase of capital assets   | (704,758)           | (4,712,109)         | -                   | (5,594)             | (5,422,461)         | -  |
| Proceeds from sale of capital assets   | 158,753             | 10,750              | -                   | -                   | 169,503             | -  |
| Property taxes   | -                   | -                   | (67,193)            | -                   | (67,193)            | -  |
| Proceeds from special assessments  | 1,913               | 6,986               | -                   | -                   | 8,899               | -  |
| Principal and interest paid on capital debt                                    | (444,570)           | (709,090)           | -                   | -                   | (1,153,660)         | -  |
| Net cash used in capital and related financing activities                      | (511,022)           | (2,326,042)         | (67,193)            | (5,594)             | (2,909,851)         | -  |
| <b>Cash Flows from Investing Activities - Interest received (paid)</b>         | 542                 | -                   | 433                 | (530)               | 445                 | 399,950  |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                    | 1,787,445           | 524,756             | (205,647)           | (66,314)            | 2,040,240           | 1,636,819  |
| <b>Cash and Cash Equivalents - Beginning of year</b>                           | 1,741,632           | 1,437,441           | 301,699             | 118,394             | 3,599,166           | 63,842   |
| <b>Cash and Cash Equivalents - End of year</b>                                 | <b>\$ 3,529,077</b> | <b>\$ 1,962,197</b> | <b>\$ 96,052</b>    | <b>\$ 52,080</b>    | <b>\$ 5,639,406</b> | <b>\$ 1,700,661</b>                              |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>               |                     |                     |                     |                     |                     |  |
| Cash and cash equivalents  | \$ 2,642,699        | \$ 1,135,954        | \$ 96,052           | \$ 52,080           | \$ 3,926,785        | \$ 1,700,661                                     |
| Restricted cash and cash equivalents (Note 8)                                  | 886,378             | 826,243             | -                   | -                   | 1,712,621           | -  |
| Total cash and cash equivalents  | <b>\$ 3,529,077</b> | <b>\$ 1,962,197</b> | <b>\$ 96,052</b>    | <b>\$ 52,080</b>    | <b>\$ 5,639,406</b> | <b>\$ 1,700,661</b>                              |
| <b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>  |                     |                     |                     |                     |                     |  |
| Operating loss   | \$ (396,736)        | \$ (1,554,024)      | \$ (783,120)        | \$ (429,385)        | \$ (3,163,265)      | \$ (1,233,595)                                   |
| Adjustments to reconcile operating loss to net cash from operating activities: |                     |                     |                     |                     |                     |  |
| Depreciation and amortization  | 987,155             | 1,923,823           | 536,450             | 198,005             | 3,645,433           | 746,997  |
| Changes in assets and liabilities:   |                     |                     |                     |                     |                     |  |
| Accounts receivable  | 1,338,600           | 580,169             | 7,156               | (10,000)            | 1,915,925           | (1,013,205)                                      |
| Due from other funds   | (25,562)            | (20,515)            | -                   | -                   | (46,077)            | -  |
| Prepays and other assets   | -                   | -                   | -                   | -                   | -                   | 3,336,179  |
| Accounts payable   | 186,704             | 1,809,152           | (13,033)            | (51,988)            | 1,930,835           | 52,959   |
| Accrued liabilities  | 330,377             | 226,151             | 45,609              | (6,822)             | 595,315             | 20,838   |
| Deposits   | 1,454               | -                   | 1,735               | 30,000              | 33,189              | -  |
| Net cash provided by (used in) operating activities                            | <b>\$ 2,421,992</b> | <b>\$ 2,964,756</b> | <b>\$ (205,203)</b> | <b>\$ (270,190)</b> | <b>\$ 4,911,355</b> | <b>\$ 1,910,173</b>                              |

# City of Pontiac, Michigan

## Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2010

|  | Pension and Other<br>Employee Benefits<br>Trust Funds (1) | Agency Funds        |
|--|---|---------------------|
| <b>Assets</b>  |   |                     |
| Cash and cash equivalents  | \$ 200,420  | \$ 1,597,006        |
| Cash and investments held as collateral for securities lending                                   | 115,060,281   | -                   |
| Accrued interest and dividends receivable  | 1,786,813   | -                   |
| Investments:   |   |                     |
| Money markets and mutual funds   | 54,297,022  | -                   |
| U.S. government agency notes and debentures  | 32,237,523  | -                   |
| Corporate and other bonds  | 39,639,359  | -                   |
| Equities   | 380,027,746   | -                   |
| Private equities   | 15,277,583  | -                   |
| U.S. government agency mortgage pools  | 33,304,358  | -                   |
| Commercial mortgage pools  | 5,911,984   | -                   |
| Asset-backed securities  | 10,302,231  | -                   |
| High-yield bonds   | 32,362,781  | -                   |
| Index-linked government bonds  | 4,575,689   | -                   |
| Other fixed income   | 31,690,542  | -                   |
| Other  | 8,113,384   | -                   |
| Due from City of Pontiac Police and Fire Retiree -<br>Prefunded Group Health and Insurance Trust | 59,538  | -                   |
| Due from City of Pontiac   | 232,131   | -                   |
| Due from GERS VEBA   | 110,225   | -                   |
| Due from City of Pontiac General Employees' Retirement System                                    | 2,742   | -                   |
| Other  | -   | 897,962             |
| <b>Total assets</b>  | <b>765,192,352</b>  | <b>\$ 2,494,968</b> |
| <b>Liabilities</b>   |   |                     |
| Due to City of Pontiac   | 2,289,819   | \$ -                |
| Due to City of Pontiac General Employees' Retirement System                                      | 110,225   | -                   |
| Due to City of Pontiac and Fire Retirement System  | 62,325  | -                   |
| Accounts payable   | 988,139   | 20,597              |
| Amount due broker under securities lending agreement   | 115,361,245   | -                   |
| Due to other governmental units  | -   | 992,914             |
| Accrued liabilities  | -   | 1,403,534           |
| Deposits   | -   | 77,923              |
| <b>Total liabilities</b>   | <b>118,811,753</b>  | <b>\$ 2,494,968</b> |
| <b>Net Assets - Held in trust for pension and other employee benefits</b>                        | <b>\$ 646,380,599</b>                                     |                     |

(1) The General City Employees' Retirement, Police and Fire Retirement Systems, General Employees' Retiree Health and Insurance Benefits Trust, and Police and Fire Retiree Prefunded Group Health and Insurance Trust financial information is reported as of December 31, 2009.

# City of Pontiac, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2010

|   | Pension and Other<br>Employee Benefits<br>Trust Funds (1) |
|---|---|
| <b>Additions</b>  |   |
| Securities lending income (loss):                                       |   |
| Interest and fees   | \$ 438,347  |
| Less borrower rebates and bank fees                                     | (148,518)   |
| Less fair value decline on collateral held                              | (300,964)   |
| Net securities lending loss   | (11,135)  |
| Contributions:  |   |
| Employer  | 4,447,307   |
| Employee  | 264,814   |
| Total contributions   | 4,712,121   |
| Investment income:  |   |
| Interest and dividends  | 13,838,911  |
| Net increase in fair value of investments                               | 101,235,457   |
| Less investment expenses  | (3,644,863)   |
| Net investment income   | 111,429,505   |
| Other - Miscellaneous and litigation revenue                            | 464,338   |
| Total additions   | 116,594,829   |
| <b>Deductions</b>   |   |
| Retiree pension benefit payments  | (34,968,078)  |
| Retiree health benefit payments   | (2,572,834)   |
| Member refunds and withdrawals  | (929,771)   |
| Other expenses  | (449,186)   |
| Administrative expenses   | (416,375)   |
| Total deductions  | (39,336,244)  |
| <b>Net Increase in Net Assets Held in Trust</b>                         | 77,258,585  |
| <b>Net Assets Held in Trust for Pension and Other Employee Benefits</b> |   |
| Beginning of year   | 569,122,014   |
| End of year   | <b>\$ 646,380,599</b>                                     |

(1) The General City Employees' Retirement, Police and Fire Retirement Systems, General Employees' Retiree Health and Insurance Benefits Trust, and Police and Fire Retiree Prefunded Group Health and Insurance Trust financial information is reported as of December 31, 2009.

# City of Pontiac, Michigan

|  | Governmental Activities                   |                                      |  |  |
|--|---|--------------------------------------|--|--|
|  | Tax Incremental<br>Financing<br>Authority | Downtown<br>Development<br>Authority | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority |
| <b>Assets</b>                                    |   |                                      |  |  |
| Current:   |   |                                      |  |  |
| Cash and investments                             | \$ 3,430,216                              | \$ 7,254                             | \$ 1,827,264                           | \$ 531,629                               |
| Receivables - Net - Property taxes               | 19,205                                    | 10,886                               | -                                      | -  |
| Total current assets                             | 3,449,421                                 | 18,140                               | 1,827,264                              | 531,629                                  |
| Noncurrent assets:                               |   |                                      |  |  |
| Due from other component units - Advances        | 754,042                                   | -                                    | -                                      | -  |
| Depreciable capital assets - Net                 | -   | -                                    | 6,304,180                              | -  |
| Total noncurrent assets                          | 754,042                                   | -                                    | 6,304,180                              | -  |
| Total assets                                     | 4,203,463                                 | 18,140                               | 8,131,444                              | 531,629                                  |
| <b>Liabilities</b>                               |   |                                      |  |  |
| Current liabilities:                             |   |                                      |  |  |
| Accounts payable                                 | -   | -                                    | 113                                    | -  |
| Property taxes refund payable                    | 2,320,000                                 | -                                    | -                                      | -  |
| Accrued liabilities                              | 326,720                                   | 4,513                                | -                                      | -  |
| Deposits   | -   | 1,400                                | -                                      | -  |
| Deferred revenue                                 | -   | -                                    | 552,999                                | -  |
| Total current liabilities                        | 2,646,720                                 | 5,913                                | 553,112                                | -  |
| Noncurrent liabilities:                          |   |                                      |  |  |
| Due within one year                              | 2,165,000                                 | -                                    | -                                      | -  |
| Due to other component units - Advances          | -   | 754,042                              | -                                      | -  |
| Due in more than one year                        | 51,937,855                                | -                                    | -                                      | -  |
| Total noncurrent liabilities                     | 54,102,855                                | 754,042                              | -                                      | -  |
| Total liabilities                                | 56,749,575                                | 759,955                              | 553,112                                | -  |
| <b>Net Assets (Deficit)</b>                      |   |                                      |  |  |
| Invested in capital assets - Net of related debt | -   | -                                    | 6,304,180                              | -  |
| Restricted for revolving loans                   | -   | -                                    | 1,251,104                              | -  |
| Unrestricted                                     | (52,546,112)                              | (741,815)                            | 23,048                                 | 531,629                                  |
| Total net assets (deficit)                       | <u>\$ (52,546,112)</u>                    | <u>\$ (741,815)</u>                  | <u>\$ 7,578,332</u>                    | <u>\$ 531,629</u>                        |

**Component Units**  
**Statement of Net Assets (Deficit)**  
**June 30, 2010**

| Business-type<br>Activities |                        |
|-----------------------------|------------------------|
| Pontiac<br>Silverdome       | Total                  |
| \$ -                        | \$ 5,796,363           |
| -                           | 30,091                 |
| -                           | 5,826,454              |
| -                           | 754,042                |
| -                           | 6,304,180              |
| -                           | 7,058,222              |
| -                           | 12,884,676             |
| -                           | 113                    |
| -                           | 2,320,000              |
| -                           | 331,233                |
| -                           | 1,400                  |
| -                           | 552,999                |
| -                           | 3,205,745              |
| -                           | 2,165,000              |
| -                           | 754,042                |
| -                           | 51,937,855             |
| -                           | 54,856,897             |
| -                           | 58,062,642             |
| -                           | 6,304,180              |
| -                           | 1,251,104              |
| -                           | (52,733,250)           |
| <u>\$ -</u>                 | <u>\$ (45,177,966)</u> |

# City of Pontiac, Michigan

## Component Units Statement of Activities Year Ended June 30, 2010

|  | Expenses            | Program Revenue      |                                |                              | Net Expenses          |
|--|---------------------|----------------------|--------------------------------|------------------------------|-----------------------|
|  |                     | Charges for Services | Operating Grants/Contributions | Capital Grants/Contributions |                       |
| Governmental activities:   |                     |                      |                                |                              |                       |
| Tax Increment Financing Authority:   |                     |                      |                                |                              |                       |
| Commercial and industrial development                                      | \$ 1,464,683        | \$ -                 | \$ 19,000                      | \$ -                         | \$ (1,445,683)        |
| Interest on long-term debt   | 2,795,889           | -                    | -                              | -                            | (2,795,889)           |
| Total Tax Increment Financing Authority                                    | 4,260,572           | -                    | 19,000                         | -                            | (4,241,572)           |
| Downtown Development Authority - Commercial and industrial development     | 265,576             | -                    | 1,002                          | -                            | (264,574)             |
| Economic Development Corporation - Commercial and industrial development   | 214,195             | -                    | -                              | -                            | (214,195)             |
| Brownfield Redevelopment Authority - Commercial and industrial development | 54                  | -                    | -                              | -                            | (54)                  |
| Total governmental activities  | 4,740,397           | -                    | 20,002                         | -                            | (4,720,395)           |
| Business-type activities - Pontiac Silverdome                              | 1,323,114           | 57,349               | -                              | -                            | (1,265,765)           |
| Total component units  | <u>\$ 6,063,511</u> | <u>\$ 57,349</u>     | <u>\$ 20,002</u>               | <u>\$ -</u>                  | <u>\$ (5,986,160)</u> |



# City of Pontiac, Michigan

## Component Units (Continued) Statement of Activities Year Ended June 30, 2010

|  | Governmental Activities              |                                      |  |  | Business-type<br>Activities |                        |
|--|--------------------------------------|--------------------------------------|--|--|-----------------------------|------------------------|
|  | Tax Increment<br>Financing Authority | Downtown<br>Development<br>Authority | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority | Pontiac Silverdome          | Total                  |
| Net expense from previous page           | \$ (4,241,572)                       | \$ (264,574)                         | \$ (214,195)                           | \$ (54)                                  | \$ (1,265,765)              | \$ (5,986,160)         |
| General revenue:                         |                                      |                                      |  |  |                             |                        |
| Property taxes                           | 4,483,395                            | 403,188                              | -                                      | 255,032                                  | -                           | 5,141,615              |
| Unrestricted investment earnings         | (444,919)                            | 406                                  | 7,482                                  | 1,066                                    | 2,218                       | (433,747)              |
| Contribution from primary government     | -                                    | -                                    | -                                      | -  | 503,357                     | 503,357                |
| Miscellaneous                            | -                                    | 11,325                               | 6,270                                  | -  | -                           | 17,595                 |
| Total general revenue                    | 4,038,476                            | 414,919                              | 13,752                                 | 256,098                                  | 505,575                     | 5,228,820              |
| Change in Net Assets                     | (203,096)                            | 150,345                              | (200,443)                              | 256,044                                  | (760,190)                   | (757,340)              |
| Net Assets (Deficit) - Beginning of year | (52,343,016)                         | (892,160)                            | 7,778,775                              | 275,585                                  | 760,190                     | (44,420,626)           |
| Net Assets (Deficit) - End of year       | <u>\$ (52,546,112)</u>               | <u>\$ (741,815)</u>                  | <u>\$ 7,578,332</u>                    | <u>\$ 531,629</u>                        | <u>\$ -</u>                 | <u>\$ (45,177,966)</u> |

### **Note I - 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 following is a summary of the significant accounting policies used by the City of Pontiac:

#### **Reporting Entity**

The City of Pontiac was incorporated on March 15, 1861 and currently operates under a Council-Strong mayor form of government. Major operations include police and fire protection, parks, library and recreation, public works, and general administrative services. In addition, the City owns and operates a water supply and sewage treatment system. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Units**

The General Building Authority (the “Authority”) consists of five members: one member being the mayor by virtue of his office and four members to be appointed by the mayor subject to confirmation by the City Council. No member of the Pontiac City Council shall be eligible to appointment or membership in the Authority. No Authority member shall be financially interested in any contract with the Authority. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings. The operations of the Authority are reported as a nonmajor Debt Service Fund.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The General Employees' Retirement System has been blended into the City's financial statements. The governing body consists of 12 trustees as follows: the mayor of the City of Pontiac, the finance director of the City of Pontiac, a City Council member, three active members of the retirement system (elected), an employee representative, an elected retiree representative, three citizen trustees, and one deferred vested member of the retirement system formerly employed by Pontiac General Hospital. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the system. The operations of the General Employees' Retirement System are reported as a Pension Fiduciary Fund. Audited financial statements for the General Employees' Retirement System can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

The Police and Fire Retirement System has been blended into the City's financial statements. The system is governed by five members as follows: the mayor of the City; the finance director of the City; two additional members, one of whom shall be an active member of and elected by members of the fire department, and one of whom shall be an active member of and elected by members of the police department; and a fifth trustee elected by the other four trustees. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the system. The operations of the Police and Fire Retirement System are reported as a Pension Fiduciary Fund. Audited financial statements for the Police and Fire Retirement System can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

The General Employees' Retiree VEBA Trust has been blended into the City's financial statements. The governing body consists of five trustees as follows: the mayor of the City of Pontiac or the mayor's designee, the finance director of the City of Pontiac or his/her designee, a City Council member or its citizen designee, an employee representative, and a retiree representative. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the system. The operations of the General Employees' Retiree VEBA Trust are reported as an Other Employee Benefits Fiduciary Fund. Audited financial statements for the General Employees' Retiree VEBA Trust can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Police and Fire Retirement System VEBA has been blended into the City's financial statements. The governing body consists of five trustees: the mayor of the City of Pontiac, the finance director of the City of Pontiac, a fire trustee, a police trustee, and a fifth trustee elected by the other four trustees. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the system. The operations of the Police and Fire Retirement System VEBA are reported as an Other Employee Benefits Fiduciary Fund. Audited financial statements for the Police and Fire Retirement System VEBA can be obtained from the City of Pontiac Retirement Office at 47450 Woodward, Pontiac, Michigan 48342.

#### **Discretely Presented Component Units**

- a. The Pontiac Silverdome component unit was created to account for the operations of the Pontiac Silverdome facilities. The Silverdome's governing body consists of three members. One member shall be appointed by the mayor of the City of Pontiac. One member shall be appointed by the City Council. The third member shall be appointed by the mayor subject to the approval by a majority vote of the member elect of the City Council. Internally prepared financial statements for the Pontiac Silverdome can be obtained from the City of Pontiac Finance Department at 47450 Woodward, Pontiac, Michigan 48342.
- b. The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body consists of members appointed by the mayor, subject to approval by the Council. There can be not less than eight or more than 12 members and the chief executive officer (mayor) of the municipality. Not less than a majority of the members shall be persons having an interest in one property located in the downtown district. Not less than one of the members shall be a resident of the downtown district, if the downtown district has 100 or more persons residing in it. Internally prepared financial statements for the DDA can be obtained from the City of Pontiac Finance Department at 47450 Woodward, Pontiac, Michigan 48342.

### **Note I - Summary of Significant Accounting Policies (Continued)**

- c. The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of a board of directors, which must consist of not less than nine persons, not more than three of whom shall be an officer or employee of the municipality. The chief executive officer and any member of the governing body of the municipality may serve on the board of directors. The chief executive officer (mayor), with the advice and consent of the governing body, shall appoint the members of the board of directors. Internally prepared financial statements for the EDC can be obtained from the City of Pontiac Finance Department at 47450 Woodward, Pontiac, Michigan 48342.
- d. 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 of Pontiac Finance Department at 47450 Woodward, Pontiac, Michigan 48342.
- e. The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City of Pontiac and to promote economic growth for these properties through the use of a state-approved revolving fund loan. The properties included are listed as contaminated by the Environmental Protection Agency. Each authority shall be under the supervision and control of a board chosen by the governing body (City Council). The governing body may by majority vote designate the trustees of the board of the Tax Increment Financing Authority as the Brownfield Redevelopment Board, which City Council did by resolution on December 18, 1997. Internally prepared financial statements for the Brownfield Redevelopment Authority can be obtained from the City of Pontiac Finance Department at 47450 Woodward, Pontiac, Michigan 48342.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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

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

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

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, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

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 fund:

**General Fund** - The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

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

Additionally, the City reports the following internal service and fiduciary activities:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost-reimbursement basis.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Fiduciary Funds**

**Pension and Other Postemployment Benefits Trust Funds** - The Pension and Other Postemployment Benefits Trust Funds account for the activities of the General Employees' Retirement System, Police and Fire Retirement System, General Employees' Retiree Health and Insurance Benefits Trust, and Police and Fire Retirement System VEBA, which accumulates resources for pension and other postemployment benefit payments to qualified employees.

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

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. 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.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31 and payable in two installments. Summer taxes are considered delinquent on August 1, at which time penalties and interest are assessed. Winter taxes are considered delinquent on February 15 of the following year, at which time a 3 percent penalty is assessed. Summer and winter taxes (including any penalty and interest) are turned over to Oakland County for collection.

The City of Pontiac 2009 tax is levied and collectible on July 1, 2009 and is recognized as revenue in the year ended June 30, 2010, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2009 taxable valuation of the City of Pontiac totaled approximately \$1.5 billion (a portion of which is abated and a portion of which is captured by the TIFA, DDA, and Brownfield), on which taxes levied consisted of 11.2737 mills for operating purposes, 2.8183 mills for refuse collection and disposal, 1.4091 mills for capital improvement, 1.0000 mills for library purposes, and .5000 mills for senior activities. This resulted in \$12.63 million for operating, \$3.16 million for refuse collection and disposal, \$1.58 million for capital improvement, \$1.12 million for library purposes, and \$.6 million for senior activities. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Capital Projects Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

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

### **Note I - Summary of Significant Accounting Policies (Continued)**

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

**Supplies and Prepaid Items** - Supplies are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Water and Sewer Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. The City has also set cash aside for the future closure and post-closure care for the landfill. These assets have been classified as restricted assets in the Sanitation Fund.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

|                            |             |
|----------------------------|-------------|
| Streets and bridges        | 10-20 years |
| Land improvements          | 10-50 years |
| Buildings and improvements | 10-50 years |
| Machinery and equipment    | 5-20 years  |
| Vehicles                   | 5 years     |
| Furniture and fixtures     | 5-10 years  |
| Water and sewer system     | 20-66 years |
| Street and traffic signs   | 10 years    |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**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 assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs 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. Issuance costs are reported as debt service expenditures.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**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.

**Comparative Data** - Comparative data is not included in the City's financial statements.

### **Note 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 is in the process of calculating a summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000.

**Noncompliance with Legal or Contractual Provisions** - The City was not in compliance with legal provisions as follows:

- The City is in violation of the State Budget Act by incurring deficits and exceeding budgeted appropriations as discussed in the required supplemental information section of this report.
- Several funds of the City and one of the City's component units reported advances due to other funds and component units related to operating cash flow needs, as disclosed in Note 6. There are no formal repayment terms or interest provisions in place for any of these borrowings.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Fund Deficits** - The City has accumulated unreserved fund deficits in the following individual funds:

|   |                              |
|---|------------------------------|
| Major governmental fund - General Fund          | \$ (4,089,199)               |
| Nonmajor governmental funds:                    |                              |
| Community Development Block Grant               | (564,636)                    |
| HOME Investment Partnerships Grant              | (5,433)                      |
| MDEQ Grant Pontiac Creek Stormwater Plan        | (16,065)                     |
| Neighborhood stabilization                      | (8,774)                      |
| Homeless shelter                                | (32,659)                     |
| ML King construction                            | <u>(14,023)</u>              |
| Total nonmajor governmental funds               | (641,590)                    |
| Major Enterprise Fund - Parking Fund            | (835,175)                    |
| Component Unit - Downtown Development Authority | <u>(752,701)</u>             |
| Total   | <u><u>\$ (6,318,665)</u></u> |

A deficit elimination plan is being filed with the Local Audit and Finance Division of the State of Michigan (see Note 16).

#### Enterprise Fund Deficit

A deficit elimination plan was originally filed with the State for the Parking Fund and approved on October 21, 2005. The plan called for a decrease in operating costs and a review of charges for services to ensure the deficit was eliminated within the required five years. Despite decreasing operating costs and reviewing the fees charged for parking, the fund has been unable to follow the approved plan. The new EFM appointed in July 2010 has determined the Parking Fund will require a contribution from the General Fund to eliminate the cumulative deficit and may require additional annual subsidies. The 2010/2011 budget includes a transfer from the General Fund to the Parking Fund to eliminate the cumulative deficit. During the current year, the Parking Fund increased the cumulative deficit by approximately \$180,000 to approximately \$835,000.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

#### **Component Unit Deficit**

The Downtown Development Authority (DDA) has a fund deficit of approximately \$752,000 as of June 30, 2010. During the current year, the DDA decreased the deficit by approximately \$105,000. The plan stated the DDA would reduce spending by \$100,000 per year over the next five years to eliminate the deficit. The City has made significant cuts in expenditures over the past few years; however, the significant annual loss in property tax capture has significantly outpaced the expenditure cuts. In February 2010, the State required the City to file an updated deficit elimination plan. As a result of the updated plan, the EFM passed the 2010/2011 budget eliminating all operating costs, budgeting only for the property tax capture. The City will continue to only budget for the property tax capture until the deficit is eliminated in approximately 2015.

### **Note 3 - Deposits and Investments**

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 local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

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

### **Note 3 - Deposits and Investments (Continued)**

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

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

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

The General City Employees' Retirement System VEBA (GEVEBA) has designated one bank for the deposit of its funds. The GEVEBA's deposits and investments are in accordance with statutory authority.

The City, pension funds, and other employee benefit trust funds' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the Police and Fire Retirement System, General Employees' Retirement System, Police and Fire Retirement System VEBA, and General City Employees' Retirement System VEBA balances as of December 31, 2009 because, as disclosed in Notes 10 and 12, these funds are maintained on a calendar year basis.

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it.

### **Note 3 - Deposits and Investments (Continued)**

**City** - The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,691,906 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

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

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

#### **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 of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 3 - Deposits and Investments (Continued)

**City** - The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investments                       | Fair Value    | Weighted<br>Average Maturity |
|-----------------------------------|---------------|------------------------------|
| Bank investment pool              | \$ 10,381,555 | 60 days                      |
| Guaranteed investment contracts   | 984,818       | 1 year                       |
| U.S. government agency securities | 1,896,317     | 7 years                      |

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

| Investment                            | Fair Market Value | Weighted Average<br>Maturity |
|---------------------------------------|-------------------|------------------------------|
| Asset-backed securities               | \$ 1,865,332      | .565 years                   |
| Asset-backed securities               | 392,943           | Unavailable                  |
| Corporate and other bonds             | 13,082,228        | 7.54 years                   |
| Corporate and other bonds             | 16,658,008        | Unavailable                  |
| U.S. governmental investments:        |                   |                              |
| Government bonds                      | 4,013,049         | 5.06 years                   |
| Government bonds                      | 2,916,888         | 7.80 years                   |
| Government agencies                   | 4,296,117         | 1.44 years                   |
| Government mortgage-backed securities | 4,708,210         | 2.84 years                   |
| Government mortgage-backed securities | 4,276,539         | Unavailable                  |
| Commercial mortgage pools             | 2,243,984         | Unavailable                  |
| Money market                          | 5,819,957         | Unavailable                  |
| Other fixed income                    | 31,690,542        | Unavailable                  |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 3 - Deposits and Investments (Continued)

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

| Investment                            | Fair Market Value | Weighted Average Maturity |
|---------------------------------------|-------------------|---------------------------|
| Asset-backed securities               | \$ 7,258,941      | 1.33 years                |
| Asset-backed securities               | 785,015           | Unavailable               |
| Commercial mortgage pools             | 3,588,241         | 4.00 years                |
| Corporate and other bonds             | 44,667,219        | 4.47 years                |
| Corporate and other bonds             | 1,931,741         | Unavailable               |
| U.S. governmental investments:        |                   |                           |
| Government agencies                   | 9,732,658         | 3.16 years                |
| Government bonds                      | 10,956,458        | 7.17 years                |
| Government bonds                      | 4,575,689         | 7.45 years                |
| Government bonds                      | 322,354           | 11.19 years               |
| Government mortgage-backed securities | 15,524,901        | 3.27 years                |
| Government mortgage-backed securities | 8,794,707         | Unavailable               |
| Other fixed income                    | 466,796           | 1.86 years                |
| Other fixed income                    | 27,683            | Unavailable               |
| Other                                 | 295,428           | 1.51 years                |
| Other                                 | 99,370            | Unavailable               |
| Money market funds                    | 17,545,573        | Unavailable               |

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

| Investment  | Fair Value   | Weighted Average Maturity |
|-------------|--------------|---------------------------|
| Mutual fund | \$ 7,614,563 | 3.8 years                 |

**General City Employees' Retirement System VEBA** - The system does not have an investment policy that restricts investment maturities. At year end, the average maturities of investments are as follows:

| Investment  | Fair Value   | Weighted Average Maturity |
|-------------|--------------|---------------------------|
| Mutual fund | \$ 2,406,137 | 6.8 years                 |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 3 - Deposits and Investments (Continued)

#### 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 ratings of debt securities (other than the U.S. government) are as follows:

| Investments                       | Fair Value    | Rating    | Rating<br>Organization |
|-----------------------------------|---------------|-----------|------------------------|
| Bank investment pools             | \$ 11,788,208 | AAAm      | Standard & Poor's      |
| Guaranteed investment contracts   | 984,818       | AA        | Standard & Poor's      |
| U.S. government agency securities | 1,896,317     | AAA       | Standard & Poor's      |
| Bank investment pools             | 13,050,858    | Not rated | N/A                    |

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

| Investment Type                            | Fair Market<br>Value | Moody's Rating |
|--|----------------------|----------------|
| Asset-backed securities                    | \$ 825,602           | Aaa            |
| Asset-backed securities                    | 1,080,067            | Aa             |
| Asset-backed securities                    | 352,606              | A              |
| Corporate bonds                            | 1,486,940            | Aa             |
| Corporate bonds                            | 5,839,698            | A              |
| Corporate bonds                            | 6,493,268            | Baa            |
| Corporate bonds                            | 15,920,330           | Unrated        |
| U.S. government agencies                   | 4,296,117            | Aaa            |
| U.S. government bonds                      | 4,015,388            | Aaa            |
| U.S. government bonds                      | 2,914,549            | Unrated        |
| U.S. government mortgage-backed securities | 8,984,749            | Unrated        |
| Commercial mortgage pools                  | 2,243,984            | Unrated        |
| Other fixed income                         | 31,690,542           | Unrated        |
| Money markets and mutual funds             | 5,819,957            | Unrated        |
| Other                                      | 79,759               | Aaa            |

### Note 3 - Deposits and Investments (Continued)

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

| Investment Type                                   | Fair Market  |                |
|---|--------------|----------------|
|   | Value        | Moody's Rating |
| Asset-backed securities                           | \$ 4,484,685 | Aaa            |
| Asset-backed securities                           | 1,508,032    | Aa             |
| Asset-backed securities                           | 329,536      | A              |
| Asset-backed securities                           | 188,743      | Baa            |
| Asset-backed securities                           | 418,903      | Ba             |
| Asset-backed securities                           | 1,114,057    | Unrated        |
| Commercial mortgage pools                         | 2,842,595    | Aaa            |
| Commercial mortgage pools                         | 745,646      | Unrated        |
| Corporate bonds                                   | 353,989      | Aaa            |
| Corporate bonds                                   | 3,668,429    | Aa             |
| Corporate bonds                                   | 10,302,540   | A              |
| Corporate bonds                                   | 11,620,920   | Baa            |
| Corporate bonds                                   | 1,744,774    | Ba             |
| Corporate bonds                                   | 8,091,946    | B              |
| Corporate bonds                                   | 8,609,754    | Caa            |
| Corporate bonds                                   | 389,500      | Ca             |
| Corporate bonds                                   | 598,612      | C              |
| Corporate bonds                                   | 1,036,496    | Unrated        |
| U.S. governmental agencies                        | 9,732,658    | Aaa            |
| U.S. government agency mortgage-backed securities | 141,352      | Unrated        |
| Other   | 605,790      | Aaa            |
| Other   | 322,354      | Aa             |
| Other   | 283,487      | Unrated        |
| Money market funds                                | 17,545,573   | Unrated        |

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System VEBA** - The PFVEBA has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment  | Fair Value | Moody's Rating |
|-------------|------------|----------------|
| Mutual fund | \$ 102,686 | Aaa            |
| Mutual fund | 189,574    | Aa             |
| Mutual fund | 916,275    | A              |
| Mutual fund | 1,619,279  | Baa            |
| Mutual fund | 355,452    | Ba             |
| Mutual fund | 268,563    | B              |
| Mutual fund | 142,181    | Caa            |
| Mutual fund | 173,776    | Ca             |
| Mutual fund | 3,846,776  | N/A            |

**General City Employees' Retirement System VEBA** - The GEVEBA has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

| Investment  | Fair Value   | Moody's Rating |
|-------------|--------------|----------------|
| Mutual fund | \$ 1,843,101 | AAA            |
| Mutual fund | 101,058      | Aa             |
| Mutual fund | 250,238      | A              |
| Mutual fund | 211,740      | Baa            |

### Concentration of Credit Risk

**City** - The City places no limit on the amount it may invest in any one issuer. There is no concentration of credit risk to disclose.

**Police and Fire Retirement System** - The PFRS's investment policy states that an investment manager may not have an investment in one single issuer in excess of 5 percent of that manager's total assets without written consent of the board. There is no concentration of credit risk to disclose.

### Note 3 - Deposits and Investments (Continued)

**General Employees' Retirement System** - The GERS places no limit on the amount it may invest in any one issuer. There is no concentration of credit risk to disclose.

**Police and Fire Retirement System VEBA** - The PFVEBA places no limit on the amount the district may invest in any one issuer. There is no concentration of credit risk to disclose.

**General City Employees' Retirement System VEBA** - The GEVEBA places no limit on the amount the district may invest in any one issuer. There is no concentration of credit risk to disclose.

#### 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.

**Police and Fire Retirement System** - The PFRS limits total assets in international equities and mutual funds to 14 percent of the total pension system's market value. The internal equities and mutual funds of the police and fire pension plan were denominated in U.S. currency. Accordingly, there were no securities subject to foreign currency risk.

**General Employees' Retirement System** - The GERS limits total assets in international equities and fixed income funds to 10 percent of the total pension systems' market value. There were no securities subject to foreign currency risk.

**Police and Fire Retirement System VEBA** - The PFVEBA had the following securities subject to foreign currency risk:

|                      | Fair Market Value |
|----------------------|-------------------|
| European euro        | \$ 1,106,205      |
| Japanese yen         | 302,532           |
| British pound        | 316,388           |
| Latin American peso  | 145,492           |
| S. African comm rand | 138,564           |
| Other                | 166,277           |

### **Note 3 - Deposits and Investments (Continued)**

**General City Employees' Retirement System VEBA** - The GEVEBA does not have any securities subject to foreign currency risk.

#### **Securities Lending**

**Police and Fire Retirement System** - As permitted by state statutes and under the provisions of a securities lending authorization agreement, the PFRS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The PFRS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2009, only United States currency was received as collateral.

The PFRS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The PFRS and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2009 was 41 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2009, the PFRS had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the PFRS as of December 31, 2009 was \$31,235,409 and \$30,380,586, respectively.

**General Employees' Retirement System** - As permitted by state statutes and under the provisions of a securities lending authorization agreement, the GERS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The GERS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2009, only United States currency was received as collateral.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 3 - Deposits and Investments (Continued)

The GERS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank; however, losses resulted due to fair market value decline of the collateral held.

The GERS and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2009 was 41 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2009, the GERS had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the GERS as of December 31, 2009 was \$83,824,872 and \$81,502,653, respectively.

**Police and Fire Retirement System VEBA** - The PFVEBA had no securities lending transactions.

**General City Employees' Retirement System VEBA** - The GEVEBA had no securities lending transactions.

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                                   | Major Funds         |                      |                      |                        |                     |                             |
|-----------------------------------|---------------------|----------------------|----------------------|------------------------|---------------------|-----------------------------|
|                                   | Governmental        |                      | Proprietary Funds    |                        |                     | Nonmajor and<br>Other Funds |
|                                   | Funds               |                      | Enterprise           | Enterprise             | Enterprise          |                             |
|                                   | General<br>Fund     | Fund -<br>Water Fund | Fund -<br>Sewer Fund | Fund -<br>Parking Fund | Fund -              |                             |
| Receivables:                      |                     |                      |                      |                        |                     | Total                       |
| Taxes                             | \$ 5,324,240        | \$ -                 | \$ -                 | \$ 36,548              | \$ 115,541          | \$ 5,476,329                |
| Accounts                          | -                   | 4,449,423            | 4,025,557            | -                      | -                   | 8,474,980                   |
| Special assessments               | -                   | 15,536               | 47,013               | -                      | -                   | 62,549                      |
| Intergovernmental                 | 3,629,204           | 86,520               | 1,295,404            | -                      | 2,600,964           | 7,612,092                   |
| Other                             | 2,051,517           | -                    | 6,920                | 9,500                  | 5,073,261           | 7,141,198                   |
| Less allowance for uncollectibles | (3,858,803)         | (255,000)            | (225,000)            | (27,000)               | (204,448)           | (4,570,251)                 |
| Net receivables                   | <u>\$ 7,146,158</u> | <u>\$ 4,296,479</u>  | <u>\$ 5,149,894</u>  | <u>\$ 19,048</u>       | <u>\$ 7,585,318</u> | <u>\$ 24,196,897</u>        |



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|  | Governmental Funds  |             |                     | Governmental |
|--|---------------------|-------------|---------------------|--------------|
|  | Unavailable         | Unearned    | Total               | Activities   |
|  |                     |             |                     | Unearned     |
| Delinquent property taxes and<br>payments in lieu of taxes | \$ 132,714          | \$ -        | \$ 132,714          | \$ -         |
| Income tax receivables                                     | 1,000,000           | -           | 1,000,000           | -            |
| Cable receivables  | 124,000             | -           | 124,000             | -            |
| Road maintenance receivables                               | 167,690             | -           | 167,690             | -            |
| Grant receivables  | 846,086             | -           | 846,086             | -            |
| Other receivables  | 2,685               | -           | 2,685               | -            |
| Total  | <u>\$ 2,273,175</u> | <u>\$ -</u> | <u>\$ 2,273,175</u> | <u>\$ -</u>  |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

|                                       | Balance<br>July 1, 2009 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2010 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| <b>Governmental Activities</b>        |                         |              |                              |                          |
| Other governmental capital assets:    |                         |              |                              |                          |
| Capital assets not being depreciated: |                         |              |                              |                          |
| Land                                  | \$ 16,390,496           | \$ 3,049,351 | \$ -                         | \$ 19,439,847            |
| Construction in progress              | 8,067,208               | 896,143      | (721,920)                    | 8,241,431                |
| Subtotal                              | 24,457,704              | 3,945,494    | (721,920)                    | 27,681,278               |
| Capital assets being depreciated:     |                         |              |                              |                          |
| Streets and bridges                   | 54,894,314              | 1,603,886    | 285,979                      | 56,784,179               |
| Land improvements                     | 6,012,415               | 600,120      | 116,962                      | 6,729,497                |
| Buildings and improvements            | 45,989,410              | 38,044       | (7,609)                      | 46,019,845               |
| Equipment                             | 13,874,856              | 264,856      | -                            | 14,139,712               |
| Vehicles                              | 11,148,352              | -            | -                            | 11,148,352               |
| Furniture and fixtures                | 8,548,547               | 10,000       | -                            | 8,558,547                |
| Subtotal                              | 140,467,894             | 2,516,906    | 395,332                      | 143,380,132              |
| Accumulated depreciation:             |                         |              |                              |                          |
| Streets and bridges                   | 19,133,043              | 2,664,984    | (83,165)                     | 21,714,862               |
| Land improvements                     | 5,744,900               | 143,140      | (530)                        | 5,887,510                |
| Buildings and improvements            | 27,123,830              | 1,048,224    | (7,609)                      | 28,164,445               |
| Equipment                             | 13,148,950              | 319,770      | -                            | 13,468,720               |
| Vehicles                              | 11,035,530              | 112,822      | -                            | 11,148,352               |
| Furniture and fixtures                | 8,403,786               | 143,628      | -                            | 8,547,414                |
| Subtotal                              | 84,590,039              | 4,432,568    | (91,304)                     | 88,931,303               |
| Net capital assets being depreciated  | 55,877,855              | (1,915,662)  | 486,636                      | 54,448,829               |
| Net other governmental capital assets | \$ 80,335,559           | \$ 2,029,832 | \$ (235,284)                 | \$ 82,130,107            |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets (Continued)

| <b>Governmental Activities (Continued)</b>           | Balance<br>July 1, 2009 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2010 |
|--|-------------------------|--------------|------------------------------|--------------------------|
| Internal Service Fund capital assets:                |                         |              |                              |                          |
| Capital assets being depreciated:                    |                         |              |                              |                          |
| Buildings and improvements                           | \$ 52,998               | \$ -         | \$ -                         | \$ 52,998                |
| Equipment  | 1,646,371               | -            | -                            | 1,646,371                |
| Vehicles   | 5,296,631               | -            | -                            | 5,296,631                |
| Furniture and fixtures                               | 10,618                  | -            | -                            | 10,618                   |
| Subtotal   | 7,006,618               | -            | -                            | 7,006,618                |
| Accumulated depreciation:                            |                         |              |                              |                          |
| Buildings and improvements                           | 27,441                  | 8,650        | -                            | 36,091                   |
| Equipment  | 1,178,774               | 132,923      | -                            | 1,311,697                |
| Vehicles   | 1,339,562               | 604,097      | -                            | 1,943,659                |
| Furniture and fixtures                               | 7,299                   | 1,327        | -                            | 8,626                    |
| Subtotal   | 2,553,076               | 746,997      | -                            | 3,300,073                |
| Net capital assets being depreciated                 | 4,453,542               | (746,997)    | -                            | 3,706,545                |
| Governmental capital assets not<br>being depreciated | 24,457,704              | 3,945,494    | (721,920)                    | 27,681,278               |
| Net governmental capital assets<br>being depreciated | 60,331,397              | (2,662,659)  | 486,636                      | 58,155,374               |
| Net governmental activity capital assets             | \$ 84,789,101           | \$ 1,282,835 | \$ (235,284)                 | \$ 85,836,652            |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets (Continued)

|                                       | Balance<br>July 1, 2009 | Additions | Disposals and<br>Adjustments | Balance<br>June 30, 2010 |
|---------------------------------------|-------------------------|-----------|------------------------------|--------------------------|
| <b>Business-type Activities</b>       |                         |           |                              |                          |
| <b>Water Fund</b>                     |                         |           |                              |                          |
| Capital assets not being depreciated: |                         |           |                              |                          |
| Land                                  | \$ 195,436              | \$ -      | \$ -                         | \$ 195,436               |
| Construction in progress              | 1,604,554               | 251,920   | (1,457,510)                  | 398,964                  |
| Subtotal                              | 1,799,990               | 251,920   | (1,457,510)                  | 594,400                  |
| Capital assets being depreciated:     |                         |           |                              |                          |
| Land improvements                     | 324,392                 | -         | -                            | 324,392                  |
| Building and improvements             | 2,929,104               | -         | -                            | 2,929,104                |
| Machinery and equipment               | 8,087,985               | 77,695    | -                            | 8,165,680                |
| Vehicles                              | 1,787,697               | -         | -                            | 1,787,697                |
| Water systems                         | 20,875,648              | 1,836,653 | (4,000)                      | 22,708,301               |
| Subtotal                              | 34,004,826              | 1,914,348 | (4,000)                      | 35,915,174               |
| Accumulated depreciation:             |                         |           |                              |                          |
| Land improvements                     | 210,699                 | 20,300    | -                            | 230,999                  |
| Building and improvements             | 1,616,774               | 50,154    | -                            | 1,666,928                |
| Machinery and equipment               | 4,355,531               | 403,671   | -                            | 4,759,202                |
| Vehicles                              | 1,736,847               | 22,830    | -                            | 1,759,677                |
| Water systems                         | 10,208,249              | 490,200   | -                            | 10,698,449               |
| Subtotal                              | 18,128,100              | 987,155   | -                            | 19,115,255               |
| Net capital assets being depreciated  | 15,876,726              | 927,193   | (4,000)                      | 16,799,919               |
| Net Water Fund capital assets         | 17,676,716              | 1,179,113 | (1,461,510)                  | 17,394,319               |
| <b>Sewer Fund</b>                     |                         |           |                              |                          |
| Capital assets not being depreciated: |                         |           |                              |                          |
| Land                                  | 325,964                 | -         | -                            | 325,964                  |
| Construction in progress              | 691,866                 | 3,550,602 | (638,065)                    | 3,604,403                |
| Subtotal                              | 1,017,830               | 3,550,602 | (638,065)                    | 3,930,367                |
| Capital assets being depreciated:     |                         |           |                              |                          |
| Land improvements                     | 241,302                 | -         | -                            | 241,302                  |
| Building and improvements             | 11,708,563              | -         | -                            | 11,708,563               |
| Machinery and equipment               | 6,225,571               | -         | -                            | 6,225,571                |
| Vehicles                              | 2,088,401               | -         | -                            | 2,088,401                |
| Sewer systems                         | 47,304,993              | 1,799,572 | -                            | 49,104,565               |
| Subtotal                              | 67,568,830              | 1,799,572 | -                            | 69,368,402               |
| Accumulated depreciation:             |                         |           |                              |                          |
| Land improvements                     | 130,153                 | 11,121    | -                            | 141,274                  |
| Building and improvements             | 8,887,102               | 145,523   | -                            | 9,032,625                |
| Machinery and equipment               | 5,607,710               | 133,821   | -                            | 5,741,531                |
| Vehicles                              | 1,787,095               | 88,402    | -                            | 1,875,497                |
| Sewer systems                         | 32,815,013              | 1,544,956 | -                            | 34,359,969               |
| Subtotal                              | 49,227,073              | 1,923,823 | -                            | 51,150,896               |
| Net capital assets being depreciated  | 18,341,757              | (124,251) | -                            | 18,217,506               |
| Net Sewer Fund capital assets         | 19,359,587              | 3,426,351 | (638,065)                    | 22,147,873               |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets (Continued)

| <b>Business-type Activities (Continued)</b>        | Balance<br>July 1, 2009 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2010 |
|--|-------------------------|--------------|------------------------------|--------------------------|
| <b>Parking Fund</b>                                |                         |              |                              |                          |
| Capital assets not being depreciated -             |                         |              |                              |                          |
| Land   | \$ 3,166,454            | \$ -         | \$ -                         | \$ 3,166,454             |
| Capital assets being depreciated:                  |                         |              |                              |                          |
| Land improvements                                  | 646,676                 | -            | -                            | 646,676                  |
| Building and improvements                          | 33,679,528              | -            | -                            | 33,679,528               |
| Machinery and equipment                            | 78,976                  | -            | -                            | 78,976                   |
| Vehicles   | 259,362                 | -            | -                            | 259,362                  |
| Traffic signs                                      | 57,858                  | -            | -                            | 57,858                   |
| Subtotal   | 34,722,400              | -            | -                            | 34,722,400               |
| Accumulated depreciation:                          |                         |              |                              |                          |
| Land improvements                                  | 646,676                 | -            | -                            | 646,676                  |
| Building and improvements                          | 21,969,232              | 533,578      | -                            | 22,502,810               |
| Machinery and equipment                            | 68,333                  | 2,872        | -                            | 71,205                   |
| Vehicles   | 259,360                 | -            | -                            | 259,360                  |
| Traffic signs                                      | 57,858                  | -            | -                            | 57,858                   |
| Subtotal   | 23,001,459              | 536,450      | -                            | 23,537,909               |
| Net capital assets being depreciated               | 11,720,941              | (536,450)    | -                            | 11,184,491               |
| Net Parking Fund capital assets                    | 14,887,395              | (536,450)    | -                            | 14,350,945               |
| <b>Golf Course Fund</b>                            |                         |              |                              |                          |
| Capital assets not being depreciated -             |                         |              |                              |                          |
| Land   | 733,760                 | -            | -                            | 733,760                  |
| Capital assets being depreciated:                  |                         |              |                              |                          |
| Land improvements                                  | 4,526,155               | -            | -                            | 4,526,155                |
| Building and improvements                          | 909,387                 | 5,595        | -                            | 914,982                  |
| Machinery and equipment                            | 438,748                 | -            | -                            | 438,748                  |
| Subtotal   | 5,874,290               | 5,595        | -                            | 5,879,885                |
| Accumulated depreciation:                          |                         |              |                              |                          |
| Land improvements                                  | 3,145,560               | 159,436      | 1                            | 3,304,997                |
| Building and improvements                          | 601,717                 | 29,416       | -                            | 631,133                  |
| Machinery and equipment                            | 381,752                 | 9,153        | -                            | 390,905                  |
| Subtotal   | 4,129,029               | 198,005      | 1                            | 4,327,035                |
| Net capital assets being depreciated               | 1,745,261               | (192,410)    | (1)                          | 1,552,850                |
| Net Golf Course Fund capital assets                | 2,479,021               | (192,410)    | (1)                          | 2,286,610                |
| Business-type capital assets not being depreciated | 6,718,034               | 3,802,522    | (2,095,575)                  | 8,424,981                |
| Net business-type capital assets being depreciated | 47,684,685              | 74,082       | (4,001)                      | 47,754,766               |
| Net business-type activity capital assets          | \$ 54,402,719           | \$ 3,876,604 | \$ (2,099,576)               | \$ 56,179,747            |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Pontiac's component units for the year was as follows:

| Component Unit - Pontiac Silverdome                               | Balance<br>July 1, 2009 | Additions           | Disposals and<br>Adjustments | Balance<br>June 30, 2010 |
|---|-------------------------|---------------------|------------------------------|--------------------------|
| Capital assets not being depreciated - Building and improvements* | \$ 583,000              | \$ -                | \$ (583,000)                 | \$ -                     |
| Net capital assets - Pontiac Silverdome                           | <u>\$ 583,000</u>       | <u>\$ -</u>         | <u>\$ (583,000)</u>          | <u>\$ -</u>              |
| <b>Component Unit - Economic Development Corporation</b>          |                         |                     |                              |                          |
| Capital assets being depreciated - Land improvements              | \$ 7,004,644            | \$ -                | \$ -                         | \$ 7,004,644             |
| Accumulated depreciation - Land improvements                      | <u>525,348</u>          | <u>175,116</u>      | <u>-</u>                     | <u>700,464</u>           |
| Net capital assets - Economic Development Corporation             | <u>\$ 6,479,296</u>     | <u>\$ (175,116)</u> | <u>\$ -</u>                  | <u>\$ 6,304,180</u>      |

\* Asset was impaired and recorded at fair market value

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

#### Governmental activities:

|                        |                |
|------------------------|----------------|
| General government     | \$ 1,200,087   |
| Public safety          | 410,519        |
| Public works           | 2,821,962      |
| Internal Service Funds | <u>746,997</u> |

Total governmental activities \$ 5,179,565

#### Business-type activities:

|             |                |
|-------------|----------------|
| Water       | \$ 987,155     |
| Sewer       | 1,923,823      |
| Parking     | 536,450        |
| Golf course | <u>198,005</u> |

Total business-type activities \$ 3,645,433

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

|   | <u>Spent to Date</u> | <u>Remaining<br/>Commitment</u> |
|---|----------------------|---------------------------------|
| Primary government:                               |                      |                                 |
| Governmental activities - Nonmajor funds:         |                      |                                 |
| Oakland Plaza project                             | \$ 628,174           | \$ 4,885,180                    |
| CVC infrastructure improvements                   | 245,004              | 434,861                         |
| Paddock Road bridge                               | -                    | 160,600                         |
| Martin Luther King Road improvements              | 643,408              | 631,592                         |
| Walton patching project                           | -                    | 133,900                         |
| Other construction projects                       | <u>66,373</u>        | <u>71,771</u>                   |
| Total governmental activities -<br>Nonmajor funds | 1,582,959            | 6,317,904                       |
| Business-type activities:                         |                      |                                 |
| Water system improvements                         | 345,290              | 1,939,110                       |
| Sewer system improvements                         | <u>2,919,386</u>     | <u>9,399,343</u>                |
| Total business-type activities                    | <u>3,264,676</u>     | <u>11,338,453</u>               |
| Total primary government                          | <u>\$ 4,847,635</u>  | <u>\$ 17,656,357</u>            |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances, which represent advances to provide cash flow for operations, is as follows:

| Receivable Fund                                    | Payable Fund   | Amount              |
|--|--|---------------------|
| <b>Due from/to Other Funds</b>                     |  |                     |
| General Fund                                       | Nonmajor governmental fund - District Court                                  | \$ 1,203,787        |
|  | Nonmajor governmental fund - Major Streets                                   | 400,000             |
|  | Nonmajor governmental fund - COPS Hiring and Recovery Grant                  | 66,229              |
|  | Nonmajor governmental fund - Community Development Block Grant               | 592,000             |
|  | Nonmajor governmental fund - Home Investment Partnerships Grant              | 14,000              |
|  | Nonmajor governmental fund - Homeless Shelter Grant                          | 33,000              |
| Total General Fund                                 |  | 2,309,016           |
| Nonmajor governmental funds                        | Nonmajor governmental funds  | 511,481             |
|  | General Fund   | 290                 |
| Total nonmajor governmental funds                  |  | 511,771             |
| Water Fund   | Nonmajor governmental funds - Energy Efficiency and Conservation Block Grant | 25,562              |
| Sewer Fund   | Nonmajor governmental funds - MDEQ Grant Pontiac Creek Stormwater Plan       | 23,000              |
| Total  |  | <u>\$ 2,869,349</u> |
| <b>Advances from/to Other Funds</b>                |  |                     |
| Internal Service Funds                             | General Fund   | \$ 4,200,000        |
| Nonmajor governmental fund - Cable                 | General Fund   | 894,710             |
| Nonmajor governmental fund - Chapter 20 Drains     | General Fund   | 950,000             |
| Nonmajor governmental fund - Capital Improvement   | General Fund   | 1,887,438           |
| Total  |  | <u>\$ 7,932,148</u> |
| <b>Advances to/from Other Component Units</b>      |  |                     |
| Component unit - Tax Increment Financing Authority | Component unit - Downtown Development Authority                              | <u>\$ 754,042</u>   |



# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The following interfund balances are between the City and Fiduciary Funds. The Fiduciary Funds of the City are presented as of December 31, 2009.

| Receivable Fund                                | Amount    | Payable Fund   | Amount    |
|--|-----------|--|-----------|
| Internal Service Funds and Retirement          |           |  |           |
| Administration Agency Fund                     | \$ 83,132 | General Employees' Retirement System                             | \$ 76,022 |
| Internal Service Funds                         | 4,208,846 | Police and Fire Retirement System VEBA                           | 2,213,797 |
| General City Employees' Retirement System VEBA | 36,437    | Internal Service Funds   | 36,437    |
| Police and Fire Retirement System              | 195,694   | Internal Service Funds and Retirement Administration Agency Fund | 156,641   |

Interfund transfers reported in the fund financial statements are comprised of the following:

| Fund Providing Resources                                    | Fund Receiving Resources                                     | Amount              |
|---|--|---------------------|
| <b>Transfers to/from Other Funds</b>                        |  |                     |
| General Fund  | Nonmajor governmental fund - District Court                  | \$ 2,247,118 (1)    |
|   | Nonmajor governmental fund - Employee Sick and Vacation Fund | 893,178 (2)         |
|   | Nonmajor governmental fund - Computer Fund                   | 57,879 (1)          |
|   | Nonmajor business-type fund - Golf Course                    | 210,000 (1)         |
| Total General Fund  |  | 3,408,175           |
| Nonmajor governmental fund - Orchard Lake Road Construction | Nonmajor governmental fund - Major Streets                   | 626,036 (5)         |
| Nonmajor governmental fund - Major Streets                  | Nonmajor governmental funds - Local Streets                  | 455,000 (3)         |
| Nonmajor governmental fund - Major Streets                  | Nonmajor governmental funds - Debt Service Funds             | 67,210 (4)          |
| Nonmajor governmental fund - Major Streets                  | Nonmajor governmental funds - Capital Project Funds          | 817,580 (5)         |
| Nonmajor governmental fund - District Court                 | Parking Fund   | 76,448              |
| Other nonmajor governmental funds                           | Nonmajor governmental fund - Employee Sick and Vacation Fund | 151,870 (2)         |
| Nonmajor governmental funds - Local Streets                 | Other nonmajor governmental funds - Debt Service Funds       | 78,565 (4) (5)      |
| Total nonmajor governmental funds                           |  | 2,272,709           |
| Internal Service Funds                                      | Nonmajor governmental funds                                  | 23,304 (2)          |
| Parking Fund  | Nonmajor governmental funds                                  | 10,132 (2)          |
| Water Fund  | Nonmajor governmental funds                                  | 63,887 (2)          |
| Water Fund  | Sewer Fund   | 60,180              |
| Total Water Fund  |  | 124,067             |
| Sewer Fund  | Nonmajor governmental funds                                  | 174,138 (2) (6)     |
| Total   |  | <u>\$ 6,012,525</u> |

- (1) Transfer to subsidize operating shortfalls
- (2) Transfer of unrestricted resources to prefund employee sick and vacation liabilities
- (3) Transfer from Major Road Fund to Local Road Fund as allowed by Act 51
- (4) Transfer for payments of general obligation debt service
- (5) Transfers to cover road construction costs
- (6) Transfers to Stormwater Permit Activity Fund for related costs

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

|  | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions | Reductions   | Ending Balance | Due Within<br>One Year |
|--|----------------------------|---------------------------------|----------------------|-----------|--------------|----------------|------------------------|
| Governmental activities:   |                            |                                 |                      |           |              |                |                        |
| General obligation bonds:  |                            |                                 |                      |           |              |                |                        |
| 1995 Michigan Department of Transportation bonds   |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$1,450,000  |                            |                                 |                      |           |              |                |                        |
| Maturing through 2011  | 5.000%                     | \$140,000                       | \$ 275,000           | \$ -      | \$ (135,000) | \$ 140,000     | \$ 140,000             |
| 2000 Municipal Golf Course bonds   |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$6,505,000  | 5.965%                     | \$670,000 -                     |                      |           |              |                |                        |
| Maturing through 2012  |                            | \$710,000                       | 2,015,000            | -         | (635,000)    | 1,380,000      | 670,000                |
| Building Authority Bonds #M043   |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$10,000,000   | 4.650% -                   | \$300,000 -                     |                      |           |              |                |                        |
| Maturing through 2012  | 4.700%                     | \$315,000                       | 900,000              | -         | (285,000)    | 615,000        | 300,000                |
| 2006 Fiscal Stabilization Bonds  |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$21,490,000   | 3.700% -                   | \$1,275,000 -                   |                      |           |              |                |                        |
| Maturing through 2021  | 5.000%                     | \$2,050,000                     | 19,185,000           | -         | (1,220,000)  | 17,965,000     | 1,275,000              |
| Add: Unamortized Bond Premium  |                            |                                 | 801,525              | -         | (66,794)     | 734,731        | -                      |
| 2006 Michigan Department of Transportation State Infrastructure Loan   |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$937,500  |                            |                                 |                      |           |              |                |                        |
| Maturing through 2011  | 3.000%                     | \$198,745                       | 391,701              | -         | (192,956)    | 198,745        | 198,745                |
| 2006 General Motors Corporation Property Tax Reimbursement agreement - Maturing in annual installments over a 10-year period, based on an economic formula | N/A                        | Various                         | 10,500,000           | -         | -            | 10,500,000     | -                      |
|  |                            | \$87,955 -                      |                      |           |              |                |                        |
| Capital lease obligations - Capital Improvement Fund   | Various                    | \$129,460                       | 860,683              | -         | (111,136)    | 749,547        | 116,936                |
|  |                            | \$456,977 -                     |                      |           |              |                |                        |
| Capital lease obligations - Internal Service Fund  | Various                    | \$714,148                       | 3,538,290            | -         | -            | 3,538,290      | 586,491                |
| Other obligations:   |                            |                                 |                      |           |              |                |                        |
| Compensated absences, separation, and longevity accrual  |                            |                                 | 4,114,092            | -         | (910,132)    | 3,203,960      | 2,395,801              |
| Other postemployment benefit obligation (Note 12)  |                            |                                 | 6,290,072            | 4,443,990 | -            | 10,734,062     | -                      |
| Landfill closure and postclosure costs   |                            |                                 | 2,477,755            | 21,979    | -            | 2,499,734      | -                      |
| Total governmental activities  |                            |                                 | 51,349,118           | 4,465,969 | (3,556,018)  | 52,259,069     | 5,682,973              |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 7 - Long-term Debt (Continued)

|   | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions    | Reductions     | Ending Balance | Due Within<br>One Year |
|---|----------------------------|---------------------------------|----------------------|--------------|----------------|----------------|------------------------|
| Business-type activities:   |                            |                                 |                      |              |                |                |                        |
| General obligation debt:  |                            |                                 |                      |              |                |                |                        |
| Parking Fund:   |                            |                                 |                      |              |                |                |                        |
| 2006 General Motors Corporation Property Tax Reimbursement Agreement                |                            |                                 |                      |              |                |                |                        |
| Maturing in annual installments over a 10-year period, based on an economic formula | N/A                        | Various                         | \$ 500,000           | \$ -         | \$ -           | \$ 500,000     | \$ -                   |
| Other postemployment benefit obligation (Note 12)                                   |                            |                                 | 38,293               | 33,702       | -              | 71,995         | -                      |
| Total Parking Fund  |                            |                                 | 538,293              | 33,702       | -              | 571,995        | -                      |
| Revenue bonds:  |                            |                                 |                      |              |                |                |                        |
| Water Fund:   |                            |                                 |                      |              |                |                |                        |
| 1995 Water Supply System  |                            |                                 |                      |              |                |                |                        |
| Amount of issue - \$3,675,000   | 6.250% -                   | \$240,000 -                     |                      |              |                |                |                        |
| Maturing through 2015   | 6.350%                     | \$300,000                       | 1,575,000            | -            | (225,000)      | 1,350,000      | 240,000                |
| 2002 Water Supply System  |                            |                                 |                      |              |                |                |                        |
| Amount of issue - \$1,375,000   | 5.000% -                   | \$60,000 -                      |                      |              |                |                |                        |
| Maturing through 2022   | 5.800%                     | \$105,000                       | 1,020,000            | -            | (55,000)       | 965,000        | 60,000                 |
| Other postemployment benefit obligation (Note 12)                                   |                            |                                 | 292,565              | 229,594      | -              | 522,159        | -                      |
| Total Water Fund  |                            |                                 | 2,887,565            | 229,594      | (280,000)      | 2,837,159      | 300,000                |
| Sewerage Fund:  |                            |                                 |                      |              |                |                |                        |
| 1995 Sewage Disposal System   |                            |                                 |                      |              |                |                |                        |
| Amount of issue - \$2,100,000   | 6.100% -                   | \$190,000 -                     |                      |              |                |                |                        |
| Maturing through 2010   | 6.350%                     | \$205,000                       | 205,000              | -            | (205,000)      | -              | -                      |
| 2002 Sewage Disposal System   |                            |                                 |                      |              |                |                |                        |
| Amount of issue - \$5,000,000   | 4.750% -                   | \$215,000 -                     |                      |              |                |                |                        |
| Maturing through 2022   | 5.850%                     | \$385,000                       | 3,705,000            | -            | (205,000)      | 3,500,000      | 215,000                |
| Capital lease obligation - 2007 vactor  | 4.850%                     | \$57,393                        | 112,129              | -            | (54,736)       | 57,393         | 57,393                 |
| Other postemployment benefit obligation (Note 12)                                   |                            |                                 | 182,805              | 201,717      | -              | 384,522        | -                      |
| Total Sewerage Fund   |                            |                                 | 4,204,934            | 201,717      | (464,736)      | 3,941,915      | 272,393                |
| Golf Course Fund - Other postemployment benefit obligation (Note 12)                |                            |                                 | 6,731                | -            | (6,731)        | -              | -                      |
| Total business-type activities  |                            |                                 | 7,637,523            | 465,013      | (751,467)      | 7,351,069      | 572,393                |
| Total governmental and business-type activities                                     |                            |                                 | \$ 58,986,641        | \$ 4,930,982 | \$ (4,307,485) | \$ 59,610,138  | \$ 6,255,366           |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 7 - Long-term Debt (Continued)

|  | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions | Reductions   | Ending Balance | Due Within<br>One Year |
|--|----------------------------|---------------------------------|----------------------|-----------|--------------|----------------|------------------------|
| Component unit debt:                                       |                            |                                 |                      |           |              |                |                        |
| Revenue bonds:   |                            |                                 |                      |           |              |                |                        |
| Tax Increment Finance Authority Area #2:                   |                            |                                 |                      |           |              |                |                        |
| 2002 TIFA Bonds #M0005                                     |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$11,245,000                             |                            | \$225,000 -                     |                      |           |              |                |                        |
| Maturing through 2022                                      | 5.625%                     | \$410,000                       | \$ 3,920,000         | \$ -      | \$ (215,000) | \$ 3,705,000   | \$ 225,000             |
| Less unamortized bond discount                             |                            |                                 | (328,500)            | -         | 25,269       | (303,231)      | -                      |
| 2007 C TIFA 1997 Marriott Refunding Bonds                  |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$1,315,000                              | 3.500% -                   | \$150,000 -                     |                      |           |              |                |                        |
| Maturing through 2017                                      | 5.000%                     | \$185,000                       | 1,315,000            | -         | (125,000)    | 1,190,000      | 150,000                |
| 2007 C TIFA 1999 Marriott Refunding Bonds                  |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$3,280,000                              | 3.500% -                   | \$145,000 -                     |                      |           |              |                |                        |
| Maturing through 2024                                      | 5.000%                     | \$315,000                       | 3,280,000            | -         | -            | 3,280,000      | -                      |
| 2007 C TIFA Bonds  |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$1,385,000                              |                            | \$220,000 -                     |                      |           |              |                |                        |
| Maturing through 2013                                      | 3.750%                     | \$345,000                       | 755,000              | -         | (230,000)    | 525,000        | 220,000                |
| Other obligations:   |                            |                                 |                      |           |              |                |                        |
| Lease payable - City of Pontiac General Building Authority | 4.625% -                   | \$300,000 -                     |                      |           |              |                |                        |
|  | 4.700%                     | \$315,000                       | 900,000              | -         | (285,000)    | 615,000        | 300,000                |
| County Contractual Agreement                               |                            |                                 |                      |           |              |                |                        |
| 2006 County Building Authority Refunding Bonds             |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$8,160,000                              | 3.375% -                   | \$50,000 -                      |                      |           |              |                |                        |
| Maturing through 2023                                      | 4.250%                     | \$2,850,000                     | 7,910,000            | -         | (50,000)     | 7,860,000      | 50,000                 |
| County Contractual Agreement                               |                            |                                 |                      |           |              |                |                        |
| 2006 County Building Authority Bonds                       |                            |                                 |                      |           |              |                |                        |
| Amount of issue - \$11,500,000                             | 5.000% -                   | \$425,000 -                     |                      |           |              |                |                        |
| Maturing through 2026                                      | 5.400%                     | \$900,000                       | 10,400,000           | -         | (400,000)    | 10,000,000     | 425,000                |
| Other postemployment benefit obligation (Note 12)          |                            |                                 | 21,566               | -         | (21,566)     | -              | -                      |
| Total Tax Increment Finance Authority Area #2              |                            |                                 | 28,173,066           | -         | (1,301,297)  | 26,871,769     | 1,370,000              |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 7 - Long-term Debt (Continued)

|   | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions | Reductions     | Ending Balance | Due Within<br>One Year |
|---|----------------------------|---------------------------------|----------------------|-----------|----------------|----------------|------------------------|
| Component unit debt (Continued):                  |                            |                                 |                      |           |                |                |                        |
| Revenue bonds:                                    |                            |                                 |                      |           |                |                |                        |
| Tax Increment Finance Authority Area #3:          |                            |                                 |                      |           |                |                |                        |
| 2002 TIFA Bonds #M006                             |                            |                                 |                      |           |                |                |                        |
| Amount of issue - \$28,675,000                    | 4.500% -                   | \$595,000 -                     |                      |           |                |                |                        |
| Maturing through 2031                             | 6.250%                     | \$670,000                       | \$ 4,385,000         | \$ -      | \$ (530,000)   | \$ 3,855,000   | \$ 595,000             |
| Less unamortized bond discount                    |                            |                                 | (221,921)            | -         | 18,494         | (203,427)      | -                      |
| 2007 C TIFA Bonds                                 |                            |                                 |                      |           |                |                |                        |
| Amount of issue - \$24,450,000                    | 3.500% -                   | \$175,000 -                     | 24,450,000           | -         | -              | 24,450,000     | 175,000                |
| Maturing through 2031                             | 5.000%                     | \$1,745,000                     | (938,129)            | -         | 42,642         | (895,487)      | -                      |
| Less unamortized bond discount                    |                            |                                 |                      |           |                |                |                        |
| 2007 C TIFA Bonds                                 |                            |                                 |                      |           |                |                |                        |
| Amount of issue - \$650,000                       | 3.750%                     | \$25,000 -                      |                      |           |                |                |                        |
| Maturing through 2031                             |                            | \$190,000                       | 220,000              | -         | (195,000)      | 25,000         | 25,000                 |
| Total Tax Increment Finance Authority Area #3     |                            |                                 | 27,894,950           | -         | (663,864)      | 27,231,086     | 795,000                |
| Downtown Development Authority -                  |                            |                                 |                      |           |                |                |                        |
| Other postemployment benefit obligation (Note 12) |                            |                                 | 17,318               | -         | (17,318)       | -              | -                      |
| Economic Development Corporation -                |                            |                                 |                      |           |                |                |                        |
| Other postemployment benefit obligation (Note 12) |                            |                                 | 21,499               | -         | (21,499)       | -              | -                      |
| Total component unit debt                         |                            |                                 | \$ 56,106,833        | \$ -      | \$ (2,003,978) | \$ 54,102,855  | \$ 2,165,000           |

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

| Year      | Governmental Activities |              |               | Business-type Activities |              |              |
|-----------|-------------------------|--------------|---------------|--------------------------|--------------|--------------|
|           | Principal               | Interest     | Total         | Principal                | Interest     | Total        |
| 2011      | \$ 3,287,172            | \$ 1,275,146 | \$ 4,562,318  | \$ 572,393               | \$ 342,014   | \$ 914,407   |
| 2012      | 3,114,231               | 1,102,217    | 4,216,448     | 545,000                  | 309,465      | 854,465      |
| 2013      | 2,203,136               | 929,154      | 3,132,290     | 575,000                  | 277,666      | 852,666      |
| 2014      | 2,277,103               | 806,676      | 3,083,779     | 605,000                  | 243,798      | 848,798      |
| 2015      | 2,079,488               | 698,132      | 2,777,620     | 640,000                  | 207,673      | 847,673      |
| 2016-2020 | 9,575,452               | 1,935,310    | 11,510,762    | 1,980,000                | 629,998      | 2,609,998    |
| 2021-2022 | 2,050,000               | 102,500      | 2,152,500     | 955,000                  | 83,243       | 1,038,243    |
| Total     | \$ 24,586,582           | \$ 6,849,135 | \$ 31,435,717 | \$ 5,872,393             | \$ 2,093,857 | \$ 7,966,250 |

| Year      | Component Units |               |               |
|-----------|-----------------|---------------|---------------|
|           | Principal       | Interest      | Total         |
| 2011      | \$ 2,165,000    | \$ 2,617,451  | \$ 4,782,451  |
| 2012      | 2,285,000       | 2,516,716     | 4,801,716     |
| 2013      | 2,345,000       | 2,409,170     | 4,754,170     |
| 2014      | 2,505,000       | 2,295,186     | 4,800,186     |
| 2015      | 2,665,000       | 2,188,692     | 4,853,692     |
| 2016-2020 | 15,145,000      | 9,058,221     | 24,203,221    |
| 2021-2025 | 16,470,000      | 5,191,695     | 21,661,695    |
| 2026-2030 | 10,280,000      | 1,618,425     | 11,898,425    |
| 2031      | 1,645,000       | 74,025        | 1,719,025     |
| Total     | \$ 55,505,000   | \$ 27,969,581 | \$ 83,474,581 |

### **Note 7 - Long-term Debt (Continued)**

Compensated absences and separation accruals of \$3,203,960 are payable upon retirement or termination of eligible employees; therefore, specific payment dates are not determinable. Also, the landfill closure and postclosure cost accrual of \$2,499,734 has no fixed maturity dates; therefore, they have been excluded from the above summary.

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by the General Fund and Debt Service Funds. Lease payments are made directly from the fund incurring the expenditure. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. The landfill closure and postclosure costs represent the cumulative amount of closure and postclosure care costs reported to date based on the use of 100 percent of the estimated capacity of the landfill.

**No Commitment Debt** - The Economic Development Corporation (the "Corporation"), a component unit, issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities which are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to pay principal and interest obligations of the bond issues and which further provide that the property be transferred to the lessee at the time that the indebtedness is paid in full. The debt instruments specifically indicate that the lender looks to the lessee for payment of the debt and that the Corporation and its officers are held harmless except to the extent of rentals they collect. The lease property and the bonds and notes are not considered to be assets or general obligations of the Corporation and, therefore, are not recognized in the financial statements of the City. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source. As of June 30, 2010, no commitment debt outstanding has been determined.

**Defeased Debt** - In the prior year, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2010, \$28,568,276 of bonds outstanding is considered defeased.

### Note 7 - Long-term Debt (Continued)

#### Future Revenue Pledged for Debt Payment

**Governmental Activities** - The City has pledged its state-shared revenue to repay the above 2006 fiscal stabilization bonds which were originally issued for \$21,490,000. Proceeds from the bonds were used to finance prior years' operating expenses of the General Fund. The bonds are payable solely from state-shared revenue. The remaining principal and interest to be paid on the bonds total \$23,703,748. During the current year, state-shared revenue was \$10,474,714 compared to annual debt requirements of \$2,154,712.

**GM Property Tax Reimbursement Agreement** - The City has a property tax refund obligation to General Motors Corporation (GM) as the result of a 1991 settlement related to the assessed valuation of GM property located within the City for fiscal years 1986 through 1992. The balance of the liability is \$11,000,000, of which \$10,500,000 is payable from the following governmental funds: General Fund, Sanitation Fund, Chapter 20 Drain Fund, and Capital Improvement Fund. The remaining \$500,000 is payable from the Parking Fund.

The repayment agreement requires an annual payment, payable 60 days after the receipt of the annual audit report and is based on an economic growth formula (the agreement requires no payment in any year the economic growth formula produces a negative amount). The formula for payment due in the 2009/2010 fiscal year resulted in a negative amount; therefore, there is no current portion due on this liability.

The economic growth formula is determined by the increase in the sum of all property tax and income tax revenue to the City's General Fund over a baseline amount. The 2009/2010 General Fund property tax and income tax revenue was \$23,044,270. The baseline amount of \$28,510,813 was established using the 2005/2006 audited financial statements. The amount due GM annually beginning in the City's 2007/2008 fiscal year will be the difference between the annual property tax and income tax collections and the base year multiplied by a percentage. There was no amount due in the City's 2007/2008 through 2009/2010 fiscal years. The percentage amounts are as follows:

- 2007/2008 - 10 percent
- 2008/2009 - 15 percent
- 2009/2010 - 20 percent
- 2010 and after - 25 percent

### Note 7 - Long-term Debt (Continued)

**Business-type Activities** - The City has pledged substantially all revenue of the Water and Sewer Funds, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds of the bonds provided financing for the improvements and additions to the water and sewer supply systems. The bonds are paid solely from the net revenue of the water and sewer systems. The remaining principal and interest to be paid on the water and sewer bonds total \$2,971,248 and \$4,925,012, respectively. During the current year, net revenue of the water system and sewer system was \$811,634 and \$418,761, respectively, compared to annual debt requirements of \$439,243 and \$630,086, respectively.

**Component Units** - Tax Increment Finance Authority Area #2 (TIFA 2) and Tax Increment Finance Authority Area #3 (TIFA 3) have pledged captured property tax revenue to repay the above TIFA 2 and TIFA 3 county contractual agreements, lease payable, and revenue bonds. Proceeds of the bonds provided financing for the Marriott Hotel construction, GM Centerpointe improvements, golf course improvements, Phoenix Center renovations, and the Clinton Valley Center Hospital Housing project. The bonds are paid solely from TIFA 2 and TIFA 3 captured property taxes. The remaining principal and interest to be paid on the TIFA 2 and TIFA 3 bonds are \$39,047,425 and \$44,427,154, respectively. During the current year, TIFA 2 and TIFA 3 captured property tax revenue totaled \$1,872,735 and \$1,749,943, respectively, compared to annual debt requirements of \$2,672,142 and \$2,069,457, respectively.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

|  | Governmental    |            | Business-type Activities |               |
|--|-----------------|------------|--------------------------|---------------|
|  | Activities      |            |                          |               |
|  |                 |            |                          | Total         |
|  |                 |            |                          | Business-type |
|  | Sanitation Fund | Water Fund | Sewer Fund               | Activities    |
| Cash and investments:  |                 |            |                          |               |
| Landfill closure and postclosure care                            | \$ 1,406,653    | \$ -       | \$ -                     | \$ -          |
| Bond reserves  | -               | 886,378    | 826,243                  | 1,712,621     |
| Total cash and investments                                       | 1,406,653       | 886,378    | 826,243                  | 1,712,621     |
| Deposits held by State for landfill closure and postclosure care | 1,092,351       | -          | -                        | -             |
| Total restricted assets  | \$ 2,499,004    | \$ 886,378 | \$ 826,243               | \$ 1,712,621  |



### **Note 8 - Restricted Assets (Continued)**

#### **Landfill - Closure and Postclosure Care Costs**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and postclosure care costs as an expense in the government-wide statements in each period based on the acres of the entire permitted site used as of each balance sheet date. The \$2,499,004 reported as landfill closure and postclosure liability at June 30, 2010 represents the cumulative amount reported to date based on the closure and postclosure costs related to the acres of the permitted site that have been used.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. Effective October 15, 2006, the City closed the landfill. The Michigan Department of Environmental Quality is in the process of examining closure/postclosure costs. On a volume basis versus site acreage basis, approximately 100 percent of landfill capacity is used as of June 30, 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements and, at June 30, 2010, investments of \$2,499,004 are held for these purposes. These are reported as restricted assets on the balance sheet. Fund balance has been reserved by the same amount. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

### **Note 9 - 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 is partially self-insured for medical and dental, workers' compensation, and general liability expense claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions.

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for medical and dental, workers' compensation, and 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. Changes in the estimated liability for the past two fiscal years were as follows:

|                               | Medical and<br>Dental | Workers'<br>Compensation | General<br>Liability |
|-------------------------------|-----------------------|--------------------------|----------------------|
| Unpaid claims - June 30, 2008 | \$ 927,000            | \$ 4,200,000             | \$ 2,500,000         |
| Incurred claims               | 12,287,729            | 734,677                  | 1,542,082            |
| Claims paid                   | <u>(12,287,729)</u>   | <u>(734,677)</u>         | <u>(1,542,082)</u>   |
| Unpaid claims - June 30, 2009 | 927,000               | 4,200,000                | 2,500,000            |
| Incurred claims               | 15,541,226            | 962,647                  | 1,104,299            |
| Claims paid                   | <u>(15,541,226)</u>   | <u>(962,647)</u>         | <u>(1,104,299)</u>   |
| Unpaid claims - June 30, 2010 | <u>\$ 927,000</u>     | <u>\$ 4,200,000</u>      | <u>\$ 2,500,000</u>  |

### Note 10 - Defined Benefit Pension Plan

#### General Employees' Retirement System

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

### Note 10 - Defined Benefit Pension Plan (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by City ordinance and negotiation with the employees' collective bargaining units. Plan members are not required to contribute. The City is required to make periodic contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

**Annual Pension Cost** - The annual contribution for the year ended December 31, 2009 was \$0. The annual required contribution was determined as part of actuarial valuations at December 31, 2006 and December 31, 2007, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional salary increases of 1.1 percent to 4.9 percent per year based on merit and/or longevity, (d) cost of living adjustments ranging from 2.0 percent to 2.5 percent per year, and (e) inflation of 4.5 percent. Both (a) and (b) are determined by using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years.

Per the actuarial report dated December 31, 2009, all assumptions have remained consistent.

**Reserves** - As of December 31, 2009, the plan's legally required reserves have been fully funded as follows:

|                                       |              |
|---------------------------------------|--------------|
| Reserved for employees' contributions | \$ 2,319,990 |
| Reserved for retired benefit payments | 197,952,614  |

### Three-year Trend Information

|                                       | Fiscal Year Ended December 31 |      |      |
|---------------------------------------|-------------------------------|------|------|
|                                       | 2007                          | 2008 | 2009 |
| General Employees' Retirement System: |                               |      |      |
| Annual pension costs (APC)            | \$ -                          | \$ - | \$ - |
| Percentage of APC contributed         | 100%                          | 100% | 100% |
| Net pension obligation                | \$ -                          | \$ - | \$ - |

### Note 10 - Defined Benefit Pension Plan (Continued)

|   | Actuarial Valuation as of December 31 |                  |                  |
|---|---------------------------------------|------------------|------------------|
|   | 2006                                  | 2007             | 2008             |
| Actuarial value of assets               | \$ 409,983,490                        | \$ 433,028,186   | \$ 416,678,512   |
| Actuarial accrued liability (AAL)       |                                       |                  |                  |
| (entry age normal)                      | \$ 266,457,429                        | \$ 257,940,349   | \$ 261,497,756   |
| Unfunded AAL (UAAL)                     | \$ (143,526,061)                      | \$ (175,087,837) | \$ (155,180,756) |
| Funded ratio                            | 153.9%                                | 167.9%           | 159.3%           |
| Covered payroll                         | \$ 14,996,753                         | \$ 13,559,473    | \$ 14,414,481    |
| UAAL as a percentage of covered payroll | -                                     | -                | -                |

### 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.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by City ordinance and negotiation with the employees' collective bargaining units. Plan members are required to contribute 2.5 percent of their annual salaries. The City is required to make periodic contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

**Annual Pension Cost** - The annual contribution for the year ended December 31, 2009 was \$1,230,190. The annual required contribution was determined as part of actuarial valuations at December 31, 2006 and December 31, 2007, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.0 percent per year, (c) additional salary increases of 0.5 percent to 9.6 percent per year based on merit and/or longevity, (d) cost of living adjustments of 2.0 percent per year, and (e) inflation of 4.0 percent. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level of percent of payroll on an open basis. The remaining amortization period is 20 years.

### Note 10 - Defined Benefit Pension Plan (Continued)

Per the actuarial report dated December 31, 2008, all assumptions have remained consistent.

**Reserves** - As of December 31, 2009, the plan's legally required reserves have been fully funded as follows:

|                                       |              |
|---------------------------------------|--------------|
| Reserved for employees' contributions | \$ 2,561,162 |
| Reserved for retired benefit payments | 168,977,043  |

### Three-year Trend Information

|   | Fiscal Year Ended December 31         |                 |                 |
|---|---------------------------------------|-----------------|-----------------|
|   | 2007                                  | 2008            | 2009            |
| Police and Fire Retirement System:      |                                       |                 |                 |
| Annual pension costs (APC)              | \$ 2,344,231                          | \$ 1,829,115    | \$ 1,230,190    |
| Percentage of APC contributed           | 100%                                  | 100%            | 100%            |
| Net pension obligation                  | \$ -                                  | \$ -            | \$ -            |
|   | Actuarial Valuation as of December 31 |                 |                 |
|   | 2006                                  | 2007            | 2008            |
| Actuarial value of assets               | \$ 258,738,855                        | \$ 271,992,032  | \$ 265,251,339  |
| Actuarial accrued liability (AAL)       |                                       |                 |                 |
| (entry age normal)                      | \$ 231,715,863                        | \$ 235,981,324  | \$ 238,217,676  |
| Unfunded AAL (UAAL)                     | \$ (27,022,992)                       | \$ (36,010,708) | \$ (27,033,663) |
| Funded ratio                            | 111.7%                                | 115.3%          | 111.3%          |
| Covered payroll                         | \$ 12,831,719                         | \$ 11,066,828   | \$ 9,749,807    |
| UAAL as a percentage of covered payroll | -                                     | -               | -               |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 10 - Defined Benefit Pension Plan (Continued)

**Financial Statement Information** - As of December 31, 2009, the statements of net assets for the General Employees' Retirement System and the Police and Fire Retirement System are as follows:

|  | General Employees'<br>Retirement System | Police and Fire<br>Retirement System |
|--|---|--------------------------------------|
| <b>Assets</b>  |   |                                      |
| Cash   | \$ 100,210                              | \$ 100,210                           |
| Cash and investments held as collateral for securities lending                             | 83,824,872                              | 31,235,409                           |
| Accrued interest and dividends receivable  | 1,451,943                               | 334,870                              |
| Accounts receivable:   |   |                                      |
| Due from City of Pontiac Police and Fire Retiree Prefunded Group Health and Insurance Fund | -                                       | 59,538                               |
| Due from GERS VEBA   | 110,225                                 | -                                    |
| Due from City of Pontiac   | -                                       | 195,694                              |
| Due from City of Pontiac Employees' Retirement System                                      | -                                       | 2,742                                |
| Investments at fair value - Including loaned securities:                                   |   |                                      |
| Money market and mutual funds  | 17,358,440                              | 5,431,942                            |
| U.S. government agency notes and debentures  | 21,011,469                              | 11,226,054                           |
| U.S. government mortgage-backed securities   | 24,319,609                              | 8,984,749                            |
| Corporate and other bonds  | 20,202,955                              | 19,436,404                           |
| Equities   | 255,458,612                             | 120,802,835                          |
| Private equities   | 3,732,609                               | 11,544,974                           |
| Commercial mortgage pools  | 3,588,241                               | 2,323,743                            |
| Asset-backed securities  | 8,043,956                               | 2,258,275                            |
| High-yield bonds   | 26,396,005                              | 5,966,776                            |
| Index-linked government bonds  | 4,575,689                               | -                                    |
| Other fixed income   | -                                       | 31,690,542                           |
| Other  | 887,453                                 | 7,225,931                            |
| Total assets   | 471,062,288                             | 258,820,688                          |
| <b>Liabilities</b>   |   |                                      |
| Due to City of Pontiac   | 76,022                                  | -                                    |
| Due to City of Pontiac Police and Fire Retirement System                                   | 2,742                                   | -                                    |
| Accounts payable and other liabilities   | 694,304                                 | 278,510                              |
| Amounts due to broker under securities lending agreement                                   | 84,041,640                              | 31,319,605                           |
| Total liabilities  | 84,814,708                              | 31,598,115                           |
| <b>Net Assets Held in Trust for Pension Benefits</b>                                       | <b>\$ 386,247,580</b>                   | <b>\$ 227,222,573</b>                |

# City of Pontiac, Michigan

## Notes to Financial Statements June 30, 2010

### Note 10 - Defined Benefit Pension Plan (Continued)

As of December 31, 2009, the statements of changes in net assets for the General Employees' Retirement System and the Police and Fire Retirement System are as follows:

|  | General Employees'<br>Retirement System | Police and Fire<br>Retirement System |
|--|---|--------------------------------------|
| <b>Additions</b>   |   |                                      |
| Securities lending income (loss):  |   |                                      |
| Interest and fees  | \$ 312,228                              | \$ 126,119                           |
| Less borrower rebates and bank fees                                      | (101,278)                               | (47,240)                             |
| Less fair value decline on collateral held                               | (216,768)                               | (84,196)                             |
| Net securities lending loss  | (5,818)                                 | (5,317)                              |
| Contributions:   |   |                                      |
| Employer   | -                                       | 1,230,190                            |
| Employee   | -                                       | 264,814                              |
| Total contributions  | -                                       | 1,495,004                            |
| Investment income (loss):  |   |                                      |
| Interest and dividend income   | 9,564,855                               | 3,457,431                            |
| Net increase in fair value   | 63,464,757                              | 31,557,670                           |
| Less investment advisor fees   | (2,561,652)                             | (1,037,502)                          |
| Net investment income  | 70,467,960                              | 33,977,599                           |
| Other - Miscellaneous and litigation revenue                             | 328,606                                 | 135,732                              |
| Total additions  | 70,790,748                              | 35,603,018                           |
| <b>Deductions</b>  |   |                                      |
| Retirees' pension benefits and retirement incentives                     | (19,992,272)                            | (14,975,806)                         |
| Member refunds and withdrawals   | -                                       | (929,771)                            |
| Other expenses   | (254,561)                               | (151,015)                            |
| Charges from the City of Pontiac - Administrative expenses               | (285,881)                               | (130,494)                            |
| Total deductions   | (20,532,714)                            | (16,187,086)                         |
| <b>Net Increase in Net Assets Held in Trust for Pension Benefits</b>     | 50,258,034                              | 19,415,932                           |
| <b>Net Assets Held in Trust for Pension Benefits - January 1, 2009</b>   | 335,989,546                             | 207,806,641                          |
| <b>Net Assets Held in Trust for Pension Benefits - December 31, 2009</b> | <u>\$ 386,247,580</u>                   | <u>\$ 227,222,573</u>                |

### **Note 11 - 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 9 percent of the employees' gross earnings and employees are required to contribute 3 percent. Employer contributions for each employee plus interest allocated to the employees' account are immediately vested.

The City's total payroll during the current year was \$27,650,953. The current year contribution was calculated based on covered payroll of \$196,918, resulting in an employer contribution of \$13,179 and employee contributions of \$5,908.

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

### **Note 12 - Other Postemployment Benefits**

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries through the following two plans:

#### **General Employees' Retiree Health and Insurance Benefits Trust**

**Plan Description** - The General Employees' Retiree Health and Insurance Benefits 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 General Employees' Retirement System of the City of Pontiac. The Trust is currently accumulating assets to generate investment earnings and there are no benefits currently being paid. 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 47450 Woodward, Pontiac, Michigan 48342.



### Note 12 - Other Postemployment Benefits (Continued)

**Funding Policy** - The City pays the cost of insurance premiums as they are due for payment. In addition, the City is required to make minimum contributions to the Trust in the amount of 3 percent of valuation payroll unless a lesser amount is actuarially determined to be necessary to actuarially fund the Trust. The ordinance that established the Trust requires annual funding of the actuarial rate or 3 percent of valuation payroll. Amounts paid for current premiums and advance funding for the year ended June 30, 2010 are shown below.

**Funding Progress** - For the year ended June 30, 2010, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

|   |                            |
|---|----------------------------|
| Annual required contribution (recommended)          | \$ 9,759,248               |
| Interest on the prior year's net OPEB obligation    | 241,837                    |
| Less adjustment to the annual required contribution | <u>(73,793)</u>            |
| Annual OPEB cost                                    | 9,927,292                  |
| Amounts contributed:                                |                            |
| Payments of current premiums                        | (6,578,184)                |
| Advance funding                                     | <u>(379,365)</u>           |
| Increase in net OPEB obligation                     | 2,969,743                  |
| OPEB obligation - Beginning of year                 | <u>3,224,473</u>           |
| OPEB obligation - End of year                       | <u><u>\$ 6,194,216</u></u> |

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 were as follows:

|                        |              |
|------------------------|--------------|
| Annual OPEB cost       | \$ 9,927,292 |
| Percentage contributed | 70.09%       |
| Net OPEB obligation    | \$ 6,194,216 |

### Note 12 - Other Postemployment Benefits (Continued)

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

|                                   | Actuarial Valuation<br>as of<br>December 31,<br>2007 |
|-----------------------------------|--|
| Actuarial value of assets         | \$ 5,682,510   |
| Actuarial accrued liability (AAL) | \$ 159,345,212                                       |
| Unfunded AAL (UAAL)               | \$ 153,662,702                                       |
| Funded ratio                      | 3.60%  |
| Annual covered payroll            | \$ 13,559,473  |
| Ratio of UAAL to covered payroll  | 1133.25%   |

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented above presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. See the required supplemental information section for additional information.

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

### **Note 12 - Other Postemployment Benefits (Continued)**

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return compounded annually (net of administration expense), which consists of a real rate of return of 3.0 percent per year plus a long-term rate of inflation of 4.5 percent per year. It also included healthcare cost increases ranging from 4.5 percent to 10.0 percent for the years included in the valuation. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 25 years.

#### **Police and Fire Retiree Prefunded Group Health and Insurance Trust**

**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. Currently, 141 retirees are eligible for benefits under this plan. 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 47450 Woodward, Pontiac, Michigan 48342.

**Funding Policy** - The City is required by ordinance to contribute on a percent of covered payroll which the trustees have deemed to be based on actuarial recommended amounts. An actuarial valuation was performed as of December 31, 2007 which arrived at a required employer contribution rate of 27.60 percent of police and fire wages.

### Note 12 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended June 30, 2010, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

|   |                     |
|---|---------------------|
| Annual required contribution (recommended)          | \$ 4,553,185        |
| Interest on the prior year's net OPEB obligation    | 218,741             |
| Less adjustment to the annual required contribution | <u>(66,746)</u>     |
| Annual OPEB cost                                    | 4,705,180           |
| Amounts contributed - Advanced funding              | <u>(3,158,681)</u>  |
| Increase in net OPEB obligation                     | 1,546,499           |
| OPEB obligation - Beginning of year                 | <u>2,916,541</u>    |
| OPEB obligation - End of year                       | <u>\$ 4,463,040</u> |

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended June 30, 2009 were as follows:

|                        |              |
|------------------------|--------------|
| Annual OPEB cost       | \$ 4,705,180 |
| Percentage contributed | 67.13%       |
| Net OPEB obligation    | \$ 4,463,040 |

### Note 12 - Other Postemployment Benefits (Continued)

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

|                                   | Actuarial Valuation<br>as of<br>December 31,<br>2007 |
|-----------------------------------|--|
| Actuarial value of assets         | \$ 30,185,216  |
| Actuarial accrued liability (AAL) | \$ 73,171,572  |
| Unfunded AAL (UAAL)               | \$ 42,986,356  |
| Funded ratio                      | 41.30%   |
| Annual covered payroll            | \$ 11,066,828  |
| Ratio of UAAL to covered payroll  | 388.43%  |

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented above presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. See the required supplemental information section for additional information.

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

### Note 12 - Other Postemployment Benefits (Continued)

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return compounded annually (net of administrative expenses), which consists of a real rate of return of 3.0 percent per year plus a long-term rate of inflation of 4.5 percent per year. It also included healthcare cost increases ranging from 4.5 percent to 10 percent for the years included in the valuation. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 30 years.

**Financial Statement Information** - As of December 31, 2009, the statements of net assets for the General Employees' Retiree Health and Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust are as follows:

|  | General Employees'<br>Retiree Health and<br>Insurance Benefits<br>Trust | Police and Fire<br>Retiree Prefunded<br>Group Health and<br>Insurance Trust |
|--|---|---|
| <b>Assets</b>  |   |   |
| Investments at fair value                                      | \$ 6,282,342  | \$ 28,990,597   |
| Due from City of Pontiac                                       | 36,437  | -   |
| Total assets   | 6,318,779   | 28,990,597  |
| <b>Liabilities</b>   |   |   |
| Due to City of Pontiac   | -   | 2,213,797   |
| Due to City of Pontiac General<br>Employees' Retirement System | 110,225   | -   |
| Due to City of Pontiac Police and Fire<br>Retirement System    | 45  | 59,538  |
| Accounts payable   | 525   | 14,800  |
| Total liabilities  | 110,795   | 2,288,135   |
| <b>Trust Net Assets</b>  | <b>\$ 6,207,984</b>   | <b>\$ 26,702,462</b>  |

### Note 12 - Other Postemployment Benefits (Continued)

As of December 31, 2009, the statements of changes in net assets for the General Employees' Retiree Health and Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust are as follows:

|  | General Employees'<br>Retiree Health and<br>Insurance Benefits<br>Trust | Police and Fire<br>Retiree Prefunded<br>Group Health and<br>Insurance Trust |
|--|---|---|
| <b>Additions</b>                             |   |   |
| Contributions - Employer                     | \$ 400,945  | \$ 2,816,172  |
| Investment income:                           |   |   |
| Interest and dividend income                 | 165,118   | 651,507   |
| Net increase in fair value of<br>investments | 863,080   | 5,349,950   |
| Investment advisor fees                      | -   | (45,709)  |
| Net investment income                        | 1,028,198   | 5,955,748   |
| Total additions                              | 1,429,143   | 8,771,920   |
| <b>Deductions</b>                            |   |   |
| Professional services                        | (17,382)  | -   |
| Retirees' health benefits                    | -   | (2,572,834)   |
| Other expenses                               | -   | (26,228)  |
| Total deductions                             | (17,382)  | (2,599,062)   |
| <b>Net Increase in Trust Net Assets</b>      | 1,411,761   | 6,172,858   |
| <b>Trust Net Assets - January 1, 2009</b>    | 4,796,223   | 20,529,604  |
| <b>Trust Net Assets - December 31, 2009</b>  | <u>\$ 6,207,984</u>   | <u>\$ 26,702,462</u>  |

### City of Pontiac Retiree Health Care Plan

**Plan Description** - The City also provides Medicare Part B reimbursement to eligible employees and health, optical, dental, and life insurance benefits to police and fire retirees not eligible for the Police and Fire Retiree Prefunded Group Health and Insurance Trust noted above. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements.

### Note 12 - Other Postemployment Benefits (Continued)

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

**Funding Progress** - For the year ended June 30, 2010, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2009. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

|   |                            |
|---|----------------------------|
| Annual required contribution (recommended)          | \$ 3,590,354               |
| Interest on the prior year's net OPEB obligation    | 36,492                     |
| Less adjustment to the annual required contribution | <u>(10,922)</u>            |
| Annual OPEB cost                                    | 3,615,924                  |
| Amounts contributed:                                |                            |
| Payments of current premiums                        | (3,290,275)                |
| Advance funding                                     | <u>-</u>                   |
| Increase in net OPEB obligation                     | 325,649                    |
| OPEB obligation - Beginning of year                 | <u>729,833</u>             |
| OPEB obligation - End of year                       | <u><u>\$ 1,055,482</u></u> |

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for year ended June 30, 2010 were as follows:

|                        |              |
|------------------------|--------------|
| Annual OPEB costs      | \$ 3,615,924 |
| Percentage contributed | 90.99%       |
| Net OPEB obligation    | \$ 1,055,482 |



### Note 12 - Other Postemployment Benefits (Continued)

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

|                                   | Actuarial Valuation<br>as of<br>December 31,<br>2009 |
|-----------------------------------|--|
| Actuarial value of assets         | \$ -   |
| Actuarial accrued liability (AAL) | \$ 73,645,892  |
| Unfunded AAL (UAAL)               | \$ 73,645,892  |
| Funded ratio                      | 0.00%  |
| Annual covered payroll            | \$ 19,958,942  |
| Ratio of UAAL to covered payroll  | 368.99%  |

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

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

### **Note 12 - Other Postemployment Benefits (Continued)**

In the December 31, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 10.0 percent annual increase for medical care inflation in the first year, decreasing in increments of 0.5 percent over the next 12 years to the ultimate 4.0 percent assumption. The assumed investment return rate was 5.0 percent. This rate assumes no prefunding. It also included salary increases of 4 percent across-the-board and age- and service-related rates for merit and longevity. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

### **Note 13 - Contingent Liabilities**

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

**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.

### **Note 14 - Transfer of North Oakland Medical Center Operations**

On August 26, 2008, the City initiated legal proceedings against the former tenant of its hospital facility. The former tenant filed for bankruptcy and the City was seeking its share of money deposited in a trust when the hospital was privatized in 1993. During the current year, the City was awarded a final payment from the remaining trust totaling \$2,212,460. The settlement revenue is recorded as a special item in the General Fund.

### Note 15 - Service Concession Arrangement

On April 10, 2010, the City entered into a lease agreement with Torre Golf Management, Inc. (TGM) to operate the Pontiac municipal golf course through December 31, 2014. The terms of the lease are summarized as follows:

- 1) TGM promises to provide golf services at a level previously provided by the City. Failure to open and operate the premises as a golf course will result in a \$1,000 per day penalty for liquidated damages.
- 2) The City will transfer all golf related assets for its use in operating the golf course.
- 3) TGM will maintain/ preserve the condition of the assets and agrees to set aside 3 percent of revenue to be spent on capital improvements. The City must approve the list of proposed annual capital improvements. At the end of the term, the premises must be in good condition. During the term, the City retains the right to further develop and improve the golf course.
- 4) The City will continue to exercise oversight of the operation.
- 5) The City will continue to set the greens fees.
- 6) TGM is required to provide the City annual fees based on the percentage of gross sales as follows:

|      |    |
|------|----|
| 2011 | 3% |
| 2012 | 3% |
| 2013 | 3% |
| 2014 | 4% |

- 7) TGM is required to maintain a \$75,000 performance bond over the lease term for the purpose of funding the operations of the golf course.
- 8) TGM is required to fund a \$75,000 security deposit, in addition to the performance bond, during each golf season to be held by the City. The City has the authority to utilize the security deposit for any expenses, cost, obligations, or duties related to the golf course. The security deposit is to be paid to the City as follows each year:

\$10,000 paid to the City no later than April 30  
\$10,000 paid to the City no later than May 30  
\$10,000 paid to the City no later than June 30

### **Note 15 - Service Concession Arrangement (Continued)**

- \$10,000 paid to the City no later than July 30
- \$10,000 paid to the City no later than August 30
- \$10,000 paid to the City no later than September 30
- \$15,000 paid to the City no later than October 30

The leased golf course operation is reported by the City as an Enterprise Fund with capital assets of \$2,286,610 and a security deposit liability of \$30,000.

### **Note 16 - Management's Plans**

The City prepared a formal deficit elimination plan and submitted it to the State of Michigan Department of Treasury (the "State") in March 2007. The State did not certify the plan because it did not provide adequate assurances that the deficit would be eliminated. A preliminary review of the City's financial condition was performed by the State on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and the governor appointed a review team on April 28, 2008. The review team confirmed that a serious problem does exist and recommended to the governor that the City enter into a consent agreement rather than appointing an emergency financial manager (EFM). The consent agreement mandated seven remedial actions and 16 ongoing compliance requirements. The City was bound to adhere to the consent agreement or any noncompliance condition would result in immediate appointment of an EFM. The City failed to comply with the consent agreement and an EFM was appointed to run the City on March 19, 2009 and served until June 30, 2010. A second EFM was appointed and has been serving since July 4, 2010. Upon the appointment of an EFM, the consent agreement was no longer applicable.

The prior EFM prepared and adopted the 2009/2010 budget. The budget includes a loss of approximately \$5 million in revenue from the 2008/2009 fiscal year. The adopted budget also includes a balanced operating budget achieved through cost-cutting measures and significant expenditure reductions from employee wage and fringe benefit concessions. The adopted budget does not address the cumulative General Fund deficit or future unfunded obligations; however, the June 30, 2009 deficit elimination plan for the 2011 fiscal year anticipated approximately \$6 million in proceeds from the sale of the Silverdome which would offset the cumulative deficit at June 30, 2010. The actual proceeds from the sale of the Silverdome were \$583,000.

### Note 16 - Management's Plans (Continued)

Prior to the arrival of the first EFM, the City's deficit elimination plan estimated the proceeds from the sale of some of the City's largest assets such as the Silverdome, cemeteries, golf course, and various other property would be more than sufficient to eliminate the cumulative deficit. However, unfunded future obligations were not included in the deficit elimination plan which significantly increase the deficit amount. The prior EFM has concluded after significant review and research that for the majority of the assets listed above, there is no market or the value in today's real estate market will not generate sufficient proceeds to eliminate much if any of the cumulative deficit.

The prior EFM continued to explore additional annual operating expenditure reductions and possible revenue enhancements to not only eliminate the annual operating deficits but to generate an operating surplus to reduce the cumulative General Fund deficit. The current EFM will be updating the City's deficit elimination plan during the fiscal year ending June 30, 2011. The State requires a deficit elimination plan be filed for any fund with a deficit and the plan must show the deficit being eliminated in no more than five years.

### Note 17 - Sale of Stock and Prior Period Adjustment

During the current year, it was discovered that the City was in possession of stock certificates that had been received from an insurance company over 20 years ago when the company went public. The stock certificates were held by the human resources department and were not recorded in the books or in the financial statements. The City immediately began the process to sell all shares of the stock held during April 2010 and received \$1,260,666 from the sale. The sale of the stock was comprised of the market value on June 30, 2009 of \$817,567 and the increase in the value of the stock in fiscal year 2010 of \$443,099. The City adjusted the beginning fund deficit in the General Fund for the market value of the stock certificates at June 30, 2009 for \$817,567 and recorded a special item revenue at June 30, 2010 for \$443,099. Beginning fund balance and net assets have been restated as follows:

|  | General Fund          | Governmental<br>Activities |
|--|-----------------------|----------------------------|
| Fund balance/Net assets - Beginning of year                  | \$ (5,607,638)        | \$ 57,678,633              |
| Prior period adjustment for stock value                      | 817,567               | 817,567                    |
| Fund balance/Net assets - Beginning of year -<br>As restated | <u>\$ (4,790,071)</u> | <u>\$ 58,496,200</u>       |

### **Note 18 - Upcoming Accounting Pronouncement**

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes 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. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

## **Required Supplemental Information**

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# City of Pontiac, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

|   | Original Budget       | Amended<br>Budget     | Actual                | Variance from<br>Amended Budget -<br>Favorable<br>(Unfavorable) |
|---|-----------------------|-----------------------|-----------------------|---|
| <b>Revenue</b>  |                       |                       |                       |   |
| Property taxes  | \$ 14,166,606         | \$ 14,163,042         | \$ 13,526,742         | \$ (636,300)  |
| Income taxes  | 9,000,000             | 9,000,000             | 10,014,957            | 1,014,957   |
| State sources   | 10,813,624            | 10,813,624            | 10,474,714            | (338,910)   |
| Charges for services  | 3,896,189             | 3,921,189             | 3,526,948             | (394,241)   |
| Investment income   | 50,000                | 493,100               | 444,479               | (48,621)  |
| Other   | 2,251,539             | 1,823,566             | 3,302,364             | 1,478,798   |
| Cable revenue   | 477,944               | 477,944               | 384,856               | (93,088)  |
| Charges to other funds for administrative services<br>and reimbursements        | 4,018,732             | 4,264,752             | 3,694,079             | (570,673)   |
| Interdepartmental revenue   | 1,457,025             | 1,409,406             | 1,595,381             | 185,975   |
| Transfer from other fund  | -                     | 499,775               | -                     | (499,775)   |
| Total revenue   | 46,131,659            | 46,866,398            | 46,964,520            | 98,122  |
| <b>Expenditures</b>   |                       |                       |                       |   |
| General government:   |                       |                       |                       |   |
| City council  | 194,821               | 150,675               | 130,529               | 20,146  |
| City clerk  | 476,784               | 486,132               | 424,021               | 62,111  |
| Attorney  | 846,825               | 964,664               | 667,237               | 297,427   |
| Finance   | 2,329,870             | 2,400,349             | 2,220,121             | 180,228   |
| Executive office  | 785,106               | 671,294               | 616,836               | 54,458  |
| Personnel   | 475,866               | 483,904               | 420,844               | 63,060  |
| Total general government  | 5,109,272             | 5,157,018             | 4,479,588             | 677,430   |
| Public safety:  |                       |                       |                       |   |
| Police  | 10,943,453            | 12,441,625            | 11,355,569            | 1,086,056   |
| Fire  | 12,077,374            | 13,474,044            | 12,897,626            | 576,418   |
| Total public safety   | 23,020,827            | 25,915,669            | 24,253,195            | 1,662,474   |
| Public works and utilities  | 4,527,084             | 4,754,563             | 3,941,511             | 813,052   |
| Community development   | 1,760,147             | 2,009,955             | 1,501,143             | 508,812   |
| General and special programs  | 11,714,329            | 9,476,319             | 12,088,211            | (2,611,892)   |
| General Fund administrative charge reimbursement<br>from General Fund divisions | -                     | (2,456,784)           | -                     | (2,456,784)   |
| Total expenditures  | 46,131,659            | 44,856,740            | 46,263,648            | (1,406,908)   |
| <b>Excess of Revenue Over Expenditures</b>                                      | -                     | 2,009,658             | 700,872               | (1,308,786)   |
| <b>Fund Balance (Deficit) - Beginning of year - As restated</b>                 | (4,790,071)           | (4,790,071)           | (4,790,071)           | -   |
| <b>Fund Balance (Deficit) - End of year</b>                                     | <u>\$ (4,790,071)</u> | <u>\$ (2,780,413)</u> | <u>\$ (4,089,199)</u> | <u>\$ (1,308,786)</u>   |



# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2010

The schedule of funding progress is as follows:

| Actuarial Valuation Date  | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|---|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| <b>General Employees' Retirement System</b>                               |                               |                                       |                           |                              |                     |   |
| 12/31/03  | \$ 394,367,065                | \$ 247,396,857                        | \$ (146,970,208)          | 159.4                        | \$ 20,807,612       | -                                       |
| 12/31/04  | 394,807,254                   | 258,365,787                           | (136,441,467)             | 152.8                        | 21,320,477          | -                                       |
| 12/31/05  | 391,409,757                   | 260,103,260                           | (131,306,497)             | 150.5                        | 16,751,815          | -                                       |
| 12/31/06  | 409,983,490                   | 266,457,429                           | (143,526,061)             | 153.9                        | 14,996,753          | -                                       |
| 12/31/07  | 433,028,186                   | 257,940,349                           | (175,087,837)             | 167.9                        | 13,559,473          | -                                       |
| 12/31/08  | 416,678,512                   | 261,497,756                           | (155,180,756)             | 159.3                        | 14,414,481          | -                                       |
| <b>Police and Fire Retirement System</b>                                  |                               |                                       |                           |                              |                     |   |
| 12/31/03 **   | \$ 244,770,438                | \$ 216,553,276                        | \$ (28,217,162)           | 113.0                        | \$ 15,308,134       | -                                       |
| 12/31/04 #  | 249,927,425                   | 225,466,883                           | (24,460,542)              | 110.8                        | 15,830,247          | -                                       |
| 12/31/05  | 253,702,503                   | 229,779,819                           | (23,922,684)              | 110.4                        | 13,758,914          | -                                       |
| 12/31/06  | 258,738,855                   | 231,715,863                           | (27,022,992)              | 111.7                        | 12,831,719          | -                                       |
| 12/31/07  | 271,992,032                   | 235,981,324                           | (36,010,708)              | 115.3                        | 11,066,828          | -                                       |
| 12/31/08  | 265,251,339                   | 238,217,676                           | (27,033,663)              | 111.3                        | 9,749,807           | -                                       |
| <b>General Employees' Retiree Health and Insurance Benefits Trust</b>     |                               |                                       |                           |                              |                     |   |
| 12/31/04  | \$ 3,202,351                  | \$ 139,925,086                        | \$ 136,722,735            | 2.3                          | \$ 21,210,461       | 644.60                                  |
| 12/31/05  | 3,973,887                     | 157,048,845                           | 153,074,958               | 2.5                          | 16,751,815          | 913.78                                  |
| 12/31/06  | 4,928,700                     | 154,823,626                           | 149,894,926               | 3.2                          | 14,996,753          | 999.52                                  |
| 12/31/07  | 5,682,510                     | 159,345,212                           | 153,662,702               | 3.6                          | 13,559,473          | 1133.25                                 |
| <b>Police and Fire Retiree Prefunded Group Health and Insurance Trust</b> |                               |                                       |                           |                              |                     |   |
| ** 12/31/06   | \$ 25,534,993                 | \$ 79,788,465                         | \$ 54,253,472             | 32.0                         | \$ 12,831,719       | 422.81                                  |
| 12/31/07  | 30,185,216                    | 73,171,572                            | 42,986,356                | 41.3                         | 11,066,828          | 388.43                                  |

\* Plan amended

\*\* Actuary valuation reports obtained for the plan for the fiscal years ended December 31, 2005 and 2004 do not disclose the actuarial accrued liability.

# Certain assumptions revised

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2010

The schedule of employer contributions is as follows:

| <u>Fiscal Year Ended</u>   | <u>Actuarial<br/>Valuation Date</u> | <u>Annual Required<br/>Contribution</u> | <u>Percentage/<br/>Amount<br/>Contributed</u> |
|--|-------------------------------------|---|---|
| <b><u>General Employees' Retirement System</u></b>                               |                                     |   |   |
| 06/30/05   | 12/31/02                            | \$ 2,767                                | 392.90  |
| 06/30/06   | 12/31/03                            | 16,926                                  | 100.00  |
| 06/30/07   | 12/31/04                            | 15,695                                  | 100.00  |
| 06/30/08   | 12/31/05                            | -                                       | 100.00  |
| 06/30/09   | 12/31/06                            | -                                       | 100.00  |
| 06/30/10   | 12/31/07                            | -                                       | 100.00  |
| <b><u>Police and Fire Retirement System</u></b>                                  |                                     |   |   |
| 06/30/05   | 12/31/02                            | 2,141,247                               | 100.00  |
| 06/30/06   | 12/31/03                            | 2,242,320                               | 100.00  |
| 06/30/07   | 12/31/04                            | 2,324,011                               | 100.00  |
| 06/30/08   | 12/31/05                            | 2,344,231                               | 100.00  |
| 06/30/09   | 12/31/06                            | 1,829,115                               | 100.00  |
| 06/30/10   | 12/31/07                            | 1,230,190                               | 100.00  |
| <b><u>General Employees' Retiree Health and Insurance Benefits Trust</u></b>     |                                     |   |   |
| 06/30/08*  | 12/31/06                            | N/A                                     | \$ 451,945                                    |
| 06/30/09   | 12/31/06                            | 10,674,833                              | 7,450,360 **                                  |
| 06/30/10   | 12/31/07                            | 9,759,248                               | 6,957,547 **                                  |
| <b><u>Police and Fire Retiree Prefunded Group Health and Insurance Trust</u></b> |                                     |   |   |
| 06/30/08*  | 12/31/06                            | N/A                                     | 2,908,138                                     |
| 06/30/09   | 12/31/06                            | 5,584,865                               | 2,678,324                                     |
| 06/30/10   | 12/31/07                            | 4,553,185                               | 3,158,681                                     |

\* GASB Statement No. 45 is not required to be adopted until the fiscal year ended June 30, 2009. Contributions are to the trust for pre-funding.

\*\* Represents contributions to the trust for pre-funding and coverage provided to current retirees

# City of Pontiac, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2010

Additional information from the latest actuarial valuation is as follows:

### **General Employees' Retirement System - Actuarial Valuation Date 6/30/08**

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Individual entry age actuarial cost  |
| Amortization method           | Level percent of payroll   |
| Remaining amortization period | 30 years, open   |
| Asset valuation method        | Market value with five-year smoothing of gains and losses                          |
| Actuarial assumptions:        |  |
| Investment rate of return*    | 7.5%   |
| Projected salary increases*   | 5.6% to 9.4%   |
| Cost of living adjustments    | 2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group |
| *Includes inflation at        | 4.5%   |

### **Police and Fire Retirement System - Actuarial Valuation Date 6/30/09**

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Individual entry age normal cost                                    |
| Amortization method           | Level percent of payroll  |
| Remaining amortization period | 20 years, open  |
| Asset valuation method        | Market value with five-year smoothing of changes in security prices |
| Actuarial assumptions:        |   |
| Investment rate of return*    | 7.5%  |
| Projected salary increases*   | 4.5% to 13.6%   |
| Cost of living adjustments    | 2%  |
| *Includes inflation at        | 4.0%  |

### **General Employees' Retiree Health and Insurance Benefits Trust - Actuarial Valuation Date 6/30/07**

|                               |                                 |
|-------------------------------|---------------------------------|
| Actuarial cost method         | Entry age actuarial cost method |
| Amortization method           | Level percent of payroll        |
| Remaining amortization period | 25 years, open                  |
| Actuarial assumptions:        |                                 |
| Investment rate of return*    | 7.5%                            |
| Projected salary increases    | 5.6% to 9.4%                    |
| Cost of living adjustments    | 2%                              |
| *Includes inflation at        | 4.5%                            |

### **Police and Fire Retiree Prefunded Group Health and Insurance Trust - Actuarial Valuation Date 6/30/07**

|                               |                                 |
|-------------------------------|---------------------------------|
| Actuarial cost method         | Entry age actuarial cost method |
| Amortization method           | Level percent of payroll        |
| Remaining amortization period | 30 years, open                  |
| Actuarial assumptions:        |                                 |
| Investment rate of return*    | 7.5%                            |
| Projected salary increases    | 4.5% to 13.6%                   |
| Cost of living adjustments    | 2%                              |
| *Includes inflation at        | 4%                              |

# City of Pontiac, Michigan

## Note to Required Supplemental Information June 30, 2010

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included as revenue, rather than as a reduction of expenses.

The budgetary comparison schedule is presented on the same basis of accounting used in preparing the adopted budget. The following is a reconciliation of the budgetary comparison schedule to the operating statement (statement of revenue, expenditures, and changes in fund balance):

|  | General Fund         |                      |
|--|----------------------|----------------------|
|  | Total                | Total                |
|  | Revenue              | Expenditures         |
| Amounts per operating statement                        | \$ 37,806,348        | \$ 36,994,403        |
| Interdepartmental revenue                              | 1,595,381            | 1,595,381            |
| Property tax chargebacks reported as expenditures      | 497,787              | 497,787              |
| Transfers in   | -                    | -                    |
| Transfers out  | -                    | 3,408,175            |
| Gain on sale of fixed asset                            | 641,543              | -                    |
| Special item   | 2,655,559            | -                    |
| Reimbursements from other funds<br>recorded as revenue | 3,767,902            | 3,767,902            |
| Amounts per budgetary comparison schedule              | <u>\$ 46,964,520</u> | <u>\$ 46,263,648</u> |

Department heads normally submit a budget request for their department by March 1 each year. The budget requests are reviewed by the budget department, finance department, and executive office. The resulting budget request, the mayor’s recommended budget, is presented to the City Council for review by June 1. The emergency financial manager adopts the final budget by June 30 each year.

# City of Pontiac, Michigan

## Note to Required Supplemental Information June 30, 2010

### Note - Budgetary Information (Continued)

The budget document presents information by fund, department, and control accounts. The legal level of budgetary control adopted by the governing body is the department level. Transfers of less than \$10,000 between control accounts within departments can be made at the discretion of the finance director. Transfers between control accounts in excess of \$10,000 shall be by approval of the emergency financial manager.

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

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Pontiac, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

|  | Amended      |               |
|--|--------------|---------------|
|  | Budget       | Actual        |
| <b>General Fund</b> - General and special programs | \$ 9,476,319 | \$ 12,088,211 |

General and special programs were over budget by \$2.6 million due to anticipated wage and fringe benefit cost savings not being fully realized.

## **Other Supplemental Information**

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# City of Pontiac, Michigan

## Other Supplemental Information Summary Combining Balance Sheet Nonmajor Governmental Fund Types June 30, 2010

|   | Special Revenue      | Capital Project      | Debt Service | Total Nonmajor       |
|---|----------------------|----------------------|--------------|----------------------|
|   | Funds                | Funds                | Funds        | Governmental         |
|   |                      |                      |              | Funds                |
| <b>Assets</b>                           |                      |                      |              |                      |
| Cash and investments                    | \$ 8,779,553         | \$ 7,843,061         | \$ -         | \$ 16,622,614        |
| Receivables - Net:                      |                      |                      |              |                      |
| Property taxes                          | 5,075                | 7,473                | -            | 12,548               |
| Other receivables                       | 39,881               | -                    | -            | 39,881               |
| Due from other governmental units       | 2,213,107            | 387,857              | -            | 2,600,964            |
| Other assets                            | 19,382               | -                    | -            | 19,382               |
| Due from other funds                    | 100,290              | 411,481              | -            | 511,771              |
| Due from other funds - Advances         | 1,844,710            | 1,887,438            | -            | 3,732,148            |
| Restricted assets                       | 2,499,004            | -                    | -            | 2,499,004            |
| Total assets                            | <u>\$ 15,501,002</u> | <u>\$ 10,537,310</u> | <u>\$ -</u>  | <u>\$ 26,038,312</u> |
| <b>Liabilities and Fund Balances</b>    |                      |                      |              |                      |
| <b>Liabilities</b>                      |                      |                      |              |                      |
| Accounts payable                        | \$ 873,600           | \$ 421,334           | \$ -         | \$ 1,294,934         |
| Property taxes refund payable           | 436,000              | 145,000              | -            | 581,000              |
| Other accrued liabilities               | 294,769              | -                    | -            | 294,769              |
| Due to other funds                      | 2,495,622            | 373,437              | -            | 2,869,059            |
| Deferred revenue                        | 1,044,006            | 21,496               | -            | 1,065,502            |
| Total liabilities                       | 5,143,997            | 961,267              | -            | 6,105,264            |
| <b>Fund Balances</b>                    |                      |                      |              |                      |
| Reserved for landfill postclosure costs | 2,499,004            | -                    | -            | 2,499,004            |
| Reserved for advances receivable        | 1,844,710            | 1,887,438            | -            | 3,732,148            |
| Unreserved, reported in:                |                      |                      |              |                      |
| Special Revenue Funds                   | 6,013,291            | -                    | -            | 6,013,291            |
| Capital Project Funds                   | -                    | 7,688,605            | -            | 7,688,605            |
| Total fund balances                     | 10,357,005           | 9,576,043            | -            | 19,933,048           |
| Total liabilities and fund balances     | <u>\$ 15,501,002</u> | <u>\$ 10,537,310</u> | <u>\$ -</u>  | <u>\$ 26,038,312</u> |

# City of Pontiac, Michigan

## Other Supplemental Information

### Summary Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds

#### Year Ended June 30, 2010

|  | Special Revenue      | Capital Project     | Debt Service | Total Nonmajor<br>Governmental |
|--|----------------------|---------------------|--------------|--------------------------------|
|  | Funds                | Funds               | Funds        | Funds                          |
| <b>Revenue</b>                             |                      |                     |              |                                |
| Taxes                                      | \$ 4,255,805         | \$ 1,372,076        | \$ -         | \$ 5,627,881                   |
| Federal grants                             | 2,028,415            | 2,490,719           | -            | 4,519,134                      |
| State grants                               | 5,614,102            | -                   | -            | 5,614,102                      |
| Charges for services                       | 1,165,559            | -                   | -            | 1,165,559                      |
| Fines and forfeitures                      | 1,825,889            | -                   | -            | 1,825,889                      |
| Investment income                          | 44,822               | 6,114               | -            | 50,936                         |
| Contribution from component units          | 98,005               | -                   | 1,086,431    | 1,184,436                      |
| Other                                      | 412,832              | -                   | -            | 412,832                        |
| Total revenue                              | 15,445,429           | 3,868,909           | 1,086,431    | 20,400,769                     |
| <b>Expenditures</b>                        |                      |                     |              |                                |
| Current:                                   |                      |                     |              |                                |
| General government                         | 8,434                | 52,789              | -            | 61,223                         |
| District court                             | 3,804,520            | -                   | -            | 3,804,520                      |
| Public safety                              | 322,076              | 576,706             | -            | 898,782                        |
| Public works and utilities                 | 9,665,643            | 3,180,745           | -            | 12,846,388                     |
| Community development                      | 2,638,284            | 8,059               | -            | 2,646,343                      |
| Community and human services               | 1,336,413            | -                   | -            | 1,336,413                      |
| General and special programs               | 1,549,188            | 10,000              | -            | 1,559,188                      |
| Commercial and industrial development      | 75,908               | 148,808             | -            | 224,716                        |
| Debt service                               | -                    | 204,708             | 1,232,206    | 1,436,914                      |
| Total expenditures                         | 19,400,466           | 4,181,815           | 1,232,206    | 24,814,487                     |
| <b>Excess of Expenditures Over Revenue</b> | (3,955,037)          | (312,906)           | (145,775)    | (4,413,718)                    |
| <b>Other Financing Sources (Uses)</b>      |                      |                     |              |                                |
| Transfers in                               | 4,702,542            | 817,580             | 145,775      | 5,665,897                      |
| Transfers out                              | (2,272,709)          | -                   | -            | (2,272,709)                    |
| Total other financing sources              | 2,429,833            | 817,580             | 145,775      | 3,393,188                      |
| <b>Net Change in Fund Balances</b>         | (1,525,204)          | 504,674             | -            | (1,020,530)                    |
| <b>Fund Balances - Beginning of year</b>   | 11,882,209           | 9,071,369           | -            | 20,953,578                     |
| <b>Fund Balances - End of year</b>         | <u>\$ 10,357,005</u> | <u>\$ 9,576,043</u> | <u>\$ -</u>  | <u>\$ 19,933,048</u>           |



# City of Pontiac, Michigan

|  | Major<br>Roads    | Local<br>Roads    | PA 48 - Tele-<br>communication<br>Allocation | Sanitation Fund     | District<br>Court   | Chapter 20<br>Drain |
|--|-------------------|-------------------|--|---------------------|---------------------|---------------------|
| <b>Assets</b>                                    |                   |                   |  |                     |                     |                     |
| Cash and investments                             | \$ 5,063          | \$ 5,952          | \$ 573,640                                   | \$ 932,599          | \$ 1,372,451        | \$ 1,897,602        |
| Receivables - Net:                               |                   |                   |  |                     |                     |                     |
| Property taxes                                   | -                 | -                 | -  | (545)               | -                   | 2,678               |
| Other receivables                                | 703               | -                 | -  | 19,178              | -                   | -                   |
| Due from other funds                             | -                 | 100,000           | -  | -                   | -                   | -                   |
| Due from other funds - Advances                  | -                 | -                 | -  | -                   | -                   | 950,000             |
| Due from other governmental units                | 709,488           | 157,982           | -  | -                   | -                   | -                   |
| Other assets                                     | 19,382            | -                 | -  | -                   | -                   | -                   |
| Restricted cash and cash equivalents             | -                 | -                 | -  | 2,499,004           | -                   | -                   |
| Total assets                                     | <u>\$ 734,636</u> | <u>\$ 263,934</u> | <u>\$ 573,640</u>                            | <u>\$ 3,450,236</u> | <u>\$ 1,372,451</u> | <u>\$ 2,850,280</u> |
| <b>Liabilities and Fund Balances (Deficit)</b>   |                   |                   |  |                     |                     |                     |
| <b>Liabilities</b>                               |                   |                   |  |                     |                     |                     |
| Accounts payable                                 | \$ 65,807         | \$ 41,436         | \$ 45,846                                    | \$ 222,497          | \$ 9,988            | \$ -                |
| Property taxes refund payable                    | -                 | -                 | -  | 285,000             | -                   | -                   |
| Accrued and other liabilities                    | 433               | 606               | -  | 11,430              | 158,676             | -                   |
| Due to other funds                               | 500,000           | -                 | -  | -                   | 1,203,787           | -                   |
| Deferred revenue                                 | 167,690           | -                 | -  | 18,633              | -                   | 2,678               |
| Total liabilities                                | 733,930           | 42,042            | 45,846                                       | 537,560             | 1,372,451           | 2,678               |
| <b>Fund Balances (Deficit)</b>                   |                   |                   |  |                     |                     |                     |
| Reserved for landfill postclosure costs          | -                 | -                 | -  | 2,499,004           | -                   | -                   |
| Reserved for advances receivable                 | -                 | -                 | -  | -                   | -                   | 950,000             |
| Unreserved, undesignated                         | 706               | 221,892           | 527,794                                      | 413,672             | -                   | 1,897,602           |
| Total fund balances (deficit)                    | 706               | 221,892           | 527,794                                      | 2,912,676           | -                   | 2,847,602           |
| Total liabilities and fund<br>balances (deficit) | <u>\$ 734,636</u> | <u>\$ 263,934</u> | <u>\$ 573,640</u>                            | <u>\$ 3,450,236</u> | <u>\$ 1,372,451</u> | <u>\$ 2,850,280</u> |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2010**

| Phoenix<br>Center Plaza<br>Events | Community<br>Development<br>Block Grant | Senior Activities   | HOME<br>Investment<br>Partnerships<br>Grant | Drug<br>Enforcement<br>Fund | MDEQ Grant<br>Pontiac Creek<br>Stormwater<br>Plan | Orchard Lake<br>Road<br>Reconstruction | Police Training<br>Grant Act 302 |
|-----------------------------------|---|---------------------|---|-----------------------------|---|--|----------------------------------|
| \$ 4,370                          | \$ 57,233                               | \$ 1,127,425        | \$ 947                                      | \$ 382,136                  | \$ 93   | \$ -                                   | \$ 69,456                        |
| -                                 | -                                       | 1,171               | -   | -                           | -   | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| -                                 | 1,020,926                               | -                   | 18,599                                      | -                           | 23,346  | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| <b>\$ 4,370</b>                   | <b>\$ 1,078,159</b>                     | <b>\$ 1,128,596</b> | <b>\$ 19,546</b>                            | <b>\$ 382,136</b>           | <b>\$ 23,439</b>                                  | <b>\$ -</b>                            | <b>\$ 69,456</b>                 |
| \$ 3,866                          | \$ 271,339                              | \$ 3,216            | \$ 5,447                                    | \$ 356                      | \$ 514  | \$ -                                   | \$ 1,849                         |
| -                                 | -                                       | 50,000              | -   | -                           | -   | -                                      | -                                |
| 484                               | 10,348                                  | 5,860               | -   | -                           | -   | -                                      | -                                |
| -                                 | 592,000                                 | -                   | 14,000                                      | -                           | 23,000  | -                                      | -                                |
| -                                 | 769,108                                 | 1,171               | 5,532                                       | -                           | 15,990  | -                                      | -                                |
| 4,350                             | 1,642,795                               | 60,247              | 24,979                                      | 356                         | 39,504  | -                                      | 1,849                            |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| -                                 | -                                       | -                   | -   | -                           | -   | -                                      | -                                |
| 20                                | (564,636)                               | 1,068,349           | (5,433)                                     | 381,780                     | (16,065)  | -                                      | 67,607                           |
| 20                                | (564,636)                               | 1,068,349           | (5,433)                                     | 381,780                     | (16,065)  | -                                      | 67,607                           |
| <b>\$ 4,370</b>                   | <b>\$ 1,078,159</b>                     | <b>\$ 1,128,596</b> | <b>\$ 19,546</b>                            | <b>\$ 382,136</b>           | <b>\$ 23,439</b>                                  | <b>\$ -</b>                            | <b>\$ 69,456</b>                 |

# City of Pontiac, Michigan

|  | Police Millage | Recreation<br>Millage | Library             | Employee Sick<br>and Vacation<br>Fund | Computer<br>Purchase<br>Control Fund |
|--|----------------|-----------------------|---------------------|---------------------------------------|--------------------------------------|
| <b>Assets</b>                                    |                |                       |                     |                                       |                                      |
| Cash and investments                             | \$ -           | \$ -                  | \$ 1,699,922        | \$ 77,867                             | \$ 3,315                             |
| Receivables - Net:                               |                |                       |                     |                                       |                                      |
| Property taxes                                   | 197            | 233                   | 1,341               | -                                     | -                                    |
| Other receivables                                | -              | -                     | -                   | -                                     | -                                    |
| Due from other funds                             | -              | -                     | -                   | -                                     | -                                    |
| Due from other funds - Advances                  | -              | -                     | -                   | -                                     | -                                    |
| Due from other governmental units                | -              | -                     | -                   | -                                     | -                                    |
| Other assets                                     | -              | -                     | -                   | -                                     | -                                    |
| Restricted cash and cash equivalents             | -              | -                     | -                   | -                                     | -                                    |
|  | <u>-</u>       | <u>-</u>              | <u>-</u>            | <u>-</u>                              | <u>-</u>                             |
| Total assets                                     | <u>\$ 197</u>  | <u>\$ 233</u>         | <u>\$ 1,701,263</u> | <u>\$ 77,867</u>                      | <u>\$ 3,315</u>                      |
| <b>Liabilities and Fund Balances (Deficit)</b>   |                |                       |                     |                                       |                                      |
| <b>Liabilities</b>                               |                |                       |                     |                                       |                                      |
| Accounts payable                                 | \$ -           | \$ -                  | \$ 38,146           | \$ -                                  | \$ 3,315                             |
| Property taxes refund payable                    | -              | -                     | 101,000             | -                                     | -                                    |
| Accrued and other liabilities                    | -              | -                     | 17,788              | 77,867                                | -                                    |
| Due to other funds                               | -              | -                     | -                   | -                                     | -                                    |
| Deferred revenue                                 | 197            | 233                   | 1,341               | -                                     | -                                    |
|  | <u>197</u>     | <u>233</u>            | <u>158,275</u>      | <u>77,867</u>                         | <u>3,315</u>                         |
| Total liabilities                                | 197            | 233                   | 158,275             | 77,867                                | 3,315                                |
| <b>Fund Balances (Deficit)</b>                   |                |                       |                     |                                       |                                      |
| Reserved for landfill postclosure costs          | -              | -                     | -                   | -                                     | -                                    |
| Reserved for advances receivable                 | -              | -                     | -                   | -                                     | -                                    |
| Unreserved, undesignated                         | -              | -                     | 1,542,988           | -                                     | -                                    |
|  | <u>-</u>       | <u>-</u>              | <u>1,542,988</u>    | <u>-</u>                              | <u>-</u>                             |
| Total fund balances (deficit)                    | -              | -                     | 1,542,988           | -                                     | -                                    |
| Total liabilities and fund<br>balances (deficit) | <u>\$ 197</u>  | <u>\$ 233</u>         | <u>\$ 1,701,263</u> | <u>\$ 77,867</u>                      | <u>\$ 3,315</u>                      |

**Other Supplemental Information  
Combining Balance Sheet (Continued)  
Nonmajor Special Revenue Funds  
June 30, 2010**

| Cable Fund        | Stormwater<br>Permit<br>Activities | Neighborhood<br>Stabilization | Homeless<br>Shelter | Energy<br>Efficiency and<br>Conservation | COPS Hiring<br>Recovery | Cemetery Fund     | Total Nonmajor<br>Special Revenue<br>Funds |
|-------------------|------------------------------------|-------------------------------|---------------------|--|-------------------------|-------------------|--|
| \$ 1,786          | \$ 456                             | \$ 3,298                      | \$ 341              | \$ -                                     | \$ -                    | \$ 563,601        | \$ 8,779,553                               |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 5,075                                      |
| 20,000            | -                                  | -                             | -                   | -  | -                       | -                 | 39,881                                     |
| 290               | -                                  | -                             | -                   | -  | -                       | -                 | 100,290                                    |
| 894,710           | -                                  | -                             | -                   | -  | -                       | -                 | 1,844,710                                  |
| -                 | -                                  | 45,541                        | 107,390             | 63,606                                   | 66,229                  | -                 | 2,213,107                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 19,382                                     |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 2,499,004                                  |
| <b>\$ 916,786</b> | <b>\$ 456</b>                      | <b>\$ 48,839</b>              | <b>\$ 107,731</b>   | <b>\$ 63,606</b>                         | <b>\$ 66,229</b>        | <b>\$ 563,601</b> | <b>\$ 15,501,002</b>                       |
|                   |                                    |                               |                     |  |                         |                   |  |
| \$ 2,076          | \$ 456                             | \$ 46,172                     | \$ 74,731           | \$ -                                     | \$ -                    | \$ 36,543         | \$ 873,600                                 |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 436,000                                    |
| -                 | -                                  | 2,667                         | -                   | -  | -                       | 8,610             | 294,769                                    |
| -                 | -                                  | -                             | 33,000              | 63,606                                   | 66,229                  | -                 | 2,495,622                                  |
| 20,000            | -                                  | 8,774                         | 32,659              | -  | -                       | -                 | 1,044,006                                  |
| 22,076            | 456                                | 57,613                        | 140,390             | 63,606                                   | 66,229                  | 45,153            | 5,143,997                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 2,499,004                                  |
| 894,710           | -                                  | -                             | -                   | -  | -                       | -                 | 1,844,710                                  |
| -                 | -                                  | (8,774)                       | (32,659)            | -  | -                       | 518,448           | 6,013,291                                  |
| 894,710           | -                                  | (8,774)                       | (32,659)            | -  | -                       | 518,448           | 10,357,005                                 |
| <b>\$ 916,786</b> | <b>\$ 456</b>                      | <b>\$ 48,839</b>              | <b>\$ 107,731</b>   | <b>\$ 63,606</b>                         | <b>\$ 66,229</b>        | <b>\$ 563,601</b> | <b>\$ 15,501,002</b>                       |

# City of Pontiac, Michigan

|  | Major<br>Roads | Local<br>Roads    | PA 48 - Tele-<br>communication<br>Allocation | Sanitation Fund     | District Court | Chapter 20 Drain    |
|--|----------------|-------------------|--|---------------------|----------------|---------------------|
| <b>Revenue</b>                                     |                |                   |  |                     |                |                     |
| Taxes  | \$ -           | \$ -              | \$ -   | \$ 2,761,503        | \$ -           | \$ (3,969)          |
| Federal grants                                     | -              | -                 | -  | -                   | -              | -                   |
| State grants                                       | 3,251,616      | 964,574           | 216,069                                      | -                   | -              | -                   |
| Charges for services                               | -              | -                 | -  | 784,715             | -              | -                   |
| Fines and forfeitures                              | -              | -                 | -  | -                   | 1,720,041      | -                   |
| Investment income (loss)                           | (1,955)        | (1,288)           | 837  | 25,474              | 10,646         | 3,934               |
| Contribution from component units                  | -              | -                 | -  | -                   | -              | -                   |
| Other  | 170,117        | -                 | -  | 1,338               | 10,971         | -                   |
| Total revenue                                      | 3,419,778      | 963,286           | 216,906                                      | 3,573,030           | 1,741,658      | (35)                |
| <b>Expenditures - Current</b>                      |                |                   |  |                     |                |                     |
| General government                                 | -              | -                 | -  | -                   | -              | -                   |
| District court                                     | -              | -                 | -  | -                   | 3,804,520      | -                   |
| Public safety                                      | -              | -                 | -  | -                   | -              | -                   |
| Public works and utilities                         | 2,798,676      | 1,622,233         | 214,305                                      | 4,054,757           | -              | 45,488              |
| Community development                              | -              | -                 | -  | -                   | -              | -                   |
| Community and human services                       | -              | -                 | -  | -                   | -              | -                   |
| General and special programs                       | -              | -                 | -  | -                   | -              | -                   |
| Commercial and industrial development              | -              | -                 | -  | -                   | -              | -                   |
| Total expenditures                                 | 2,798,676      | 1,622,233         | 214,305                                      | 4,054,757           | 3,804,520      | 45,488              |
| <b>Excess of Revenue Over (Under)</b>              |                |                   |  |                     |                |                     |
| Expenditures                                       | 621,102        | (658,947)         | 2,601  | (481,727)           | (2,062,862)    | (45,523)            |
| <b>Other Financing Sources (Uses)</b>              |                |                   |  |                     |                |                     |
| Transfers in                                       | 626,036        | 455,000           | -  | -                   | 2,247,118      | -                   |
| Transfers out                                      | (1,339,790)    | (78,565)          | -  | (10,148)            | (184,256)      | -                   |
| Total other financing sources (uses)               | (713,754)      | 376,435           | -  | (10,148)            | 2,062,862      | -                   |
| <b>Net Change in Fund Balances</b>                 | (92,652)       | (282,512)         | 2,601  | (491,875)           | -              | (45,523)            |
| <b>Fund Balances (Deficit) - Beginning of year</b> | 93,358         | 504,404           | 525,193                                      | 3,404,551           | -              | 2,893,125           |
| <b>Fund Balances (Deficit) - End of year</b>       | <u>\$ 706</u>  | <u>\$ 221,892</u> | <u>\$ 527,794</u>                            | <u>\$ 2,912,676</u> | <u>\$ -</u>    | <u>\$ 2,847,602</u> |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Nonmajor Special Revenue Funds**  
**Year Ended June 30, 2010**

| Phoenix Center<br>Plaza Events | Community<br>Development Block<br>Grant | Senior<br>Activities | HOME<br>Investment<br>Partnerships<br>Grant | Drug<br>Enforcement<br>Fund | MDEQ Grant<br>Pontiac Creek<br>Stormwater<br>Plan | Orchard Lake<br>Road<br>Reconstruction | Police Training<br>Grant Act 302 |
|--------------------------------|---|----------------------|---|-----------------------------|---|--|----------------------------------|
| \$ -                           | \$ -                                    | \$ 500,062           | \$ -  | \$ -                        | \$ -  | \$ -                                   | \$ -                             |
| -                              | 561,238                                 | -                    | 657,747                                     | 33,896                      | 37,053  | -                                      | -                                |
| -                              | 359,229                                 | -                    | -   | 165,099                     | -   | 626,036                                | -                                |
| -                              | -                                       | 3,620                | -   | -                           | -   | -                                      | -                                |
| -                              | -                                       | -                    | -   | -                           | -   | -                                      | -                                |
| (37)                           | -                                       | 2,536                | -   | 450                         | -   | -                                      | 161                              |
| 56,515                         | -                                       | -                    | -   | -                           | -   | -                                      | -                                |
| 19,450                         | -                                       | 1,003                | -   | -                           | -   | -                                      | -                                |
| <u>75,928</u>                  | <u>920,467</u>                          | <u>507,221</u>       | <u>657,747</u>                              | <u>199,445</u>              | <u>37,053</u>                                     | <u>626,036</u>                         | <u>161</u>                       |
| -                              | -                                       | -                    | -   | -                           | -   | -                                      | -                                |
| -                              | -                                       | -                    | -   | -                           | -   | -                                      | -                                |
| -                              | -                                       | -                    | -   | 80,432                      | -   | -                                      | 31,998                           |
| -                              | -                                       | -                    | -   | -                           | 54,441  | -                                      | -                                |
| -                              | 1,468,342                               | -                    | 663,280                                     | -                           | -   | -                                      | -                                |
| -                              | -                                       | 246,371              | -   | -                           | -   | -                                      | -                                |
| -                              | -                                       | -                    | -   | -                           | -   | -                                      | -                                |
| <u>75,908</u>                  | <u>-</u>                                | <u>-</u>             | <u>-</u>                                    | <u>-</u>                    | <u>-</u>  | <u>-</u>                               | <u>-</u>                         |
| <u>75,908</u>                  | <u>1,468,342</u>                        | <u>246,371</u>       | <u>663,280</u>                              | <u>80,432</u>               | <u>54,441</u>                                     | <u>-</u>                               | <u>31,998</u>                    |
| 20                             | (547,875)                               | 260,850              | (5,533)                                     | 119,013                     | (17,388)  | 626,036                                | (31,837)                         |
| -                              | -                                       | -                    | -   | -                           | 4,618   | -                                      | -                                |
| -                              | (16,761)                                | -                    | -   | -                           | -   | (626,036)                              | -                                |
| -                              | (16,761)                                | -                    | -   | -                           | 4,618   | (626,036)                              | -                                |
| 20                             | (564,636)                               | 260,850              | (5,533)                                     | 119,013                     | (12,770)  | -                                      | (31,837)                         |
| -                              | -                                       | 807,499              | 100   | 262,767                     | (3,295)   | -                                      | 99,444                           |
| <u>\$ 20</u>                   | <u>\$ (564,636)</u>                     | <u>\$ 1,068,349</u>  | <u>\$ (5,433)</u>                           | <u>\$ 381,780</u>           | <u>\$ (16,065)</u>                                | <u>\$ -</u>                            | <u>\$ 67,607</u>                 |

# City of Pontiac, Michigan

|  | Police Millage | Recreation<br>Millage | Library             | Employee Sick<br>and Vacation Fund | Computer<br>Purchase<br>Control Fund |
|--|----------------|-----------------------|---------------------|------------------------------------|--------------------------------------|
| <b>Revenue</b>                                     |                |                       |                     |                                    |                                      |
| Taxes  | \$ -           | \$ -                  | \$ 998,209          | \$ -                               | \$ -                                 |
| Federal grants                                     | -              | -                     | -                   | -                                  | -                                    |
| State grants                                       | -              | -                     | 31,479              | -                                  | -                                    |
| Charges for services                               | -              | -                     | -                   | -                                  | 170,585                              |
| Fines and forfeitures                              | -              | -                     | 105,848             | -                                  | -                                    |
| Investment income (loss)                           | -              | -                     | 4,437               | (2,756)                            | -                                    |
| Contribution from component units                  | -              | -                     | -                   | 41,490                             | -                                    |
| Other  | -              | -                     | 8,586               | 5,791                              | -                                    |
| Total revenue                                      | -              | -                     | 1,148,559           | 44,525                             | 170,585                              |
| <b>Expenditures - Current</b>                      |                |                       |                     |                                    |                                      |
| General government                                 | -              | -                     | -                   | -                                  | -                                    |
| District court                                     | -              | -                     | -                   | -                                  | -                                    |
| Public safety                                      | -              | -                     | -                   | -                                  | -                                    |
| Public works and utilities                         | -              | -                     | -                   | -                                  | -                                    |
| Community development                              | -              | -                     | -                   | -                                  | -                                    |
| Community and human services                       | -              | -                     | 1,090,042           | -                                  | -                                    |
| General and special programs                       | -              | -                     | -                   | 1,320,724                          | 228,464                              |
| Commercial and industrial development              | -              | -                     | -                   | -                                  | -                                    |
| Total expenditures                                 | -              | -                     | 1,090,042           | 1,320,724                          | 228,464                              |
| <b>Excess of Revenue Over (Under)</b>              |                |                       |                     |                                    |                                      |
| Expenditures                                       | -              | -                     | 58,517              | (1,276,199)                        | (57,879)                             |
| <b>Other Financing Sources (Uses)</b>              |                |                       |                     |                                    |                                      |
| Transfers in                                       | -              | -                     | -                   | 1,276,199                          | 57,879                               |
| Transfers out                                      | -              | -                     | (10,342)            | -                                  | -                                    |
| Total other financing sources (uses)               | -              | -                     | (10,342)            | 1,276,199                          | 57,879                               |
| <b>Net Change in Fund Balances</b>                 | -              | -                     | 48,175              | -                                  | -                                    |
| <b>Fund Balances (Deficit) - Beginning of year</b> | -              | -                     | 1,494,813           | -                                  | -                                    |
| <b>Fund Balances (Deficit) - End of year</b>       | <u>\$ -</u>    | <u>\$ -</u>           | <u>\$ 1,542,988</u> | <u>\$ -</u>                        | <u>\$ -</u>                          |

**Other Supplemental Information**

**Combining Statement of Revenue, Expenditures, and Changes  
in Fund Balances (Deficit) - Nonmajor Special Revenue Funds (Continued)**

**Year Ended June 30, 2010**

| Cable Fund        | Stormwater<br>Permit<br>Activities | Neighborhood<br>Stabilization | Homeless<br>Shelter | Energy<br>Efficiency and<br>Conservation | COPS Hiring<br>Recovery | Cemetery<br>Fund  | Total Nonmajor<br>Special Revenue<br>Funds |
|-------------------|------------------------------------|-------------------------------|---------------------|--|-------------------------|-------------------|--|
| \$ -              | \$ -                               | \$ -                          | \$ -                | \$ -                                     | \$ -                    | \$ -              | \$ 4,255,805                               |
| -                 | -                                  | 212,969                       | 252,260             | 63,606                                   | 209,646                 | -                 | 2,028,415                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 5,614,102                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | 206,639           | 1,165,559                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 1,825,889                                  |
| 95                | -                                  | -                             | -                   | -  | -                       | 2,288             | 44,822                                     |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 98,005                                     |
| 94,759            | -                                  | -                             | -                   | -  | -                       | 100,817           | 412,832                                    |
| 94,854            | -                                  | 212,969                       | 252,260             | 63,606                                   | 209,646                 | 309,744           | 15,445,429                                 |
| 8,434             | -                                  | -                             | -                   | -  | -                       | -                 | 8,434                                      |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 3,804,520                                  |
| -                 | -                                  | -                             | -                   | -  | 209,646                 | -                 | 322,076                                    |
| -                 | 35,692                             | -                             | -                   | 63,606                                   | -                       | 776,445           | 9,665,643                                  |
| -                 | -                                  | 221,743                       | 284,919             | -  | -                       | -                 | 2,638,284                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 1,336,413                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 1,549,188                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | -                 | 75,908                                     |
| 8,434             | 35,692                             | 221,743                       | 284,919             | 63,606                                   | 209,646                 | 776,445           | 19,400,466                                 |
| 86,420            | (35,692)                           | (8,774)                       | (32,659)            | -  | -                       | (466,701)         | (3,955,037)                                |
| -                 | 35,692                             | -                             | -                   | -  | -                       | -                 | 4,702,542                                  |
| -                 | -                                  | -                             | -                   | -  | -                       | (6,811)           | (2,272,709)                                |
| -                 | 35,692                             | -                             | -                   | -  | -                       | (6,811)           | 2,429,833                                  |
| 86,420            | -                                  | (8,774)                       | (32,659)            | -  | -                       | (473,512)         | (1,525,204)                                |
| 808,290           | -                                  | -                             | -                   | -  | -                       | 991,960           | 11,882,209                                 |
| <b>\$ 894,710</b> | <b>\$ -</b>                        | <b>\$ (8,774)</b>             | <b>\$ (32,659)</b>  | <b>\$ -</b>                              | <b>\$ -</b>             | <b>\$ 518,448</b> | <b>\$ 10,357,005</b>                       |



# City of Pontiac, Michigan

|  | Capital<br>Improvement | University<br>Drive<br>Widening | CVC<br>Infrastructure<br>Improvements | Pontiac Woods<br>Development | Phoenix Plaza<br>Renovations |
|--|------------------------|---------------------------------|---------------------------------------|------------------------------|------------------------------|
| <b>Assets</b>                                    |                        |                                 |                                       |                              |                              |
| Cash and investments                             | \$ 1,365,072           | \$ -                            | \$ 622,202                            | \$ 111,609                   | \$ 402,509                   |
| Property taxes receivable                        | 7,473                  | -                               | -                                     | -                            | -                            |
| Accounts receivable                              | -                      | -                               | -                                     | -                            | -                            |
| Due from other governmental units                | -                      | -                               | -                                     | -                            | -                            |
| Due from other funds                             | 411,481                | -                               | -                                     | -                            | -                            |
| Due from other funds - Advances                  | 1,887,438              | -                               | -                                     | -                            | -                            |
| Total assets                                     | <u>\$ 3,671,464</u>    | <u>\$ -</u>                     | <u>\$ 622,202</u>                     | <u>\$ 111,609</u>            | <u>\$ 402,509</u>            |
| <b>Liabilities and Fund Balances (Deficit)</b>   |                        |                                 |                                       |                              |                              |
| <b>Liabilities</b>                               |                        |                                 |                                       |                              |                              |
| Accounts payable                                 | \$ -                   | \$ -                            | \$ -                                  | \$ -                         | \$ 345,305                   |
| Property taxes refund payable                    | 145,000                | -                               | -                                     | -                            | -                            |
| Due to other funds                               | -                      | -                               | -                                     | -                            | -                            |
| Deferred revenue                                 | 7,473                  | -                               | -                                     | -                            | -                            |
| Total liabilities                                | 152,473                | -                               | -                                     | -                            | 345,305                      |
| <b>Fund Balances (Deficit)</b>                   |                        |                                 |                                       |                              |                              |
| Reserved for advances receivable                 | 1,887,438              | -                               | -                                     | -                            | -                            |
| Unreserved, undesignated                         | 1,631,553              | -                               | 622,202                               | 111,609                      | 57,204                       |
| Total fund balances (deficit)                    | 3,518,991              | -                               | 622,202                               | 111,609                      | 57,204                       |
| Total liabilities and<br>fund balances (deficit) | <u>\$ 3,671,464</u>    | <u>\$ -</u>                     | <u>\$ 622,202</u>                     | <u>\$ 111,609</u>            | <u>\$ 402,509</u>            |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2010**

| Oakland Plaza<br>Construction | Strand<br>Theater<br>Project | ML King<br>Construction | Clinton River<br>Linear Park<br>Trail | Total Nonmajor<br>Capital Projects<br>Funds |
|-------------------------------|------------------------------|-------------------------|---------------------------------------|---|
| \$ 5,073,442                  | \$ 172,715                   | \$ 61,609               | \$ 33,903                             | \$ 7,843,061                                |
| -                             | -                            | -                       | -                                     | 7,473                                       |
| -                             | -                            | -                       | -                                     | -   |
| -                             | -                            | 387,857                 | -                                     | 387,857                                     |
| -                             | -                            | -                       | -                                     | 411,481                                     |
| -                             | -                            | -                       | -                                     | 1,887,438                                   |
| <u>\$ 5,073,442</u>           | <u>\$ 172,715</u>            | <u>\$ 449,466</u>       | <u>\$ 33,903</u>                      | <u>\$ 10,537,310</u>                        |

|                     |                   |                   |                  |                      |
|---------------------|-------------------|-------------------|------------------|----------------------|
| \$ -                | \$ -              | \$ 76,029         | \$ -             | \$ 421,334           |
| -                   | -                 | -                 | -                | 145,000              |
| -                   | -                 | 373,437           | -                | 373,437              |
| -                   | -                 | 14,023            | -                | 21,496               |
| -                   | -                 | 463,489           | -                | 961,267              |
| -                   | -                 | -                 | -                | 1,887,438            |
| <u>5,073,442</u>    | <u>172,715</u>    | <u>(14,023)</u>   | <u>33,903</u>    | <u>7,688,605</u>     |
| <u>5,073,442</u>    | <u>172,715</u>    | <u>(14,023)</u>   | <u>33,903</u>    | <u>9,576,043</u>     |
| <u>\$ 5,073,442</u> | <u>\$ 172,715</u> | <u>\$ 449,466</u> | <u>\$ 33,903</u> | <u>\$ 10,537,310</u> |

# City of Pontiac, Michigan

|  | Capital<br>Improvement | University<br>Drive<br>Widening | CVC<br>Infrastructure<br>Improvements | Pontiac Woods<br>Development | Phoenix Plaza<br>Renovations |
|--|------------------------|---------------------------------|---------------------------------------|------------------------------|------------------------------|
| <b>Revenue</b>                                     |                        |                                 |                                       |                              |                              |
| Taxes  | \$ 1,372,076           | \$ -                            | \$ -                                  | \$ -                         | \$ -                         |
| Federal grants                                     | -                      | -                               | -                                     | -                            | -                            |
| Investment income                                  | 3,152                  | -                               | 763                                   | 229                          | 834                          |
| Total revenue                                      | 1,375,228              | -                               | 763                                   | 229                          | 834                          |
| <b>Expenditures</b>                                |                        |                                 |                                       |                              |                              |
| General government                                 | 52,789                 | -                               | -                                     | -                            | -                            |
| Public safety                                      | 576,706                | -                               | -                                     | -                            | -                            |
| Public works and utilities                         | 8,059                  | -                               | 120,145                               | -                            | -                            |
| General and special programs                       | 10,000                 | -                               | -                                     | -                            | -                            |
| Community development                              | 8,059                  | -                               | -                                     | -                            | -                            |
| Commercial and industrial development              | -                      | -                               | -                                     | -                            | -                            |
| Debt service                                       | -                      | 204,708                         | -                                     | -                            | -                            |
| Total expenditures                                 | 655,613                | 204,708                         | 120,145                               | -                            | -                            |
| <b>Excess of Revenue Over (Under)</b>              |                        |                                 |                                       |                              |                              |
| <b>Expenditures</b>                                | 719,615                | (204,708)                       | (119,382)                             | 229                          | 834                          |
| <b>Other Financing Sources - Transfers In</b>      | -                      | 204,708                         | -                                     | -                            | -                            |
| <b>Net Change in Fund Balances</b>                 | 719,615                | -                               | (119,382)                             | 229                          | 834                          |
| <b>Fund Balances (Deficit) - Beginning of year</b> | 2,799,376              | -                               | 741,584                               | 111,380                      | 56,370                       |
| <b>Fund Balances (Deficit) - End of year</b>       | <u>\$ 3,518,991</u>    | <u>\$ -</u>                     | <u>\$ 622,202</u>                     | <u>\$ 111,609</u>            | <u>\$ 57,204</u>             |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Nonmajor Capital Projects Funds**  
**Year Ended June 30, 2010**

| Oakland Plaza<br>Construction | Strand Theater<br>Project | ML King<br>Construction | Clinton River<br>Linear Park<br>Trail | Total Nonmajor<br>Capital Projects<br>Funds |
|-------------------------------|---------------------------|-------------------------|---------------------------------------|---|
| \$ -                          | \$ -                      | \$ -                    | \$ -                                  | \$ 1,372,076                                |
| -                             | -                         | 2,490,719               | -                                     | 2,490,719                                   |
| <u>388</u>                    | <u>560</u>                | <u>-</u>                | <u>188</u>                            | <u>6,114</u>                                |
| 388                           | 560                       | 2,490,719               | 188                                   | 3,868,909                                   |
| -                             | -                         | -                       | -                                     | 52,789                                      |
| -                             | -                         | -                       | -                                     | 576,706                                     |
| -                             | -                         | 3,049,352               | 3,189                                 | 3,180,745                                   |
| -                             | -                         | -                       | -                                     | 10,000                                      |
| -                             | -                         | -                       | -                                     | 8,059                                       |
| -                             | 148,808                   | -                       | -                                     | 148,808                                     |
| -                             | -                         | -                       | -                                     | 204,708                                     |
| <u>-</u>                      | <u>148,808</u>            | <u>3,049,352</u>        | <u>3,189</u>                          | <u>4,181,815</u>                            |
| 388                           | (148,248)                 | (558,633)               | (3,001)                               | (312,906)                                   |
| <u>-</u>                      | <u>-</u>                  | <u>609,871</u>          | <u>3,001</u>                          | <u>817,580</u>                              |
| 388                           | (148,248)                 | 51,238                  | -                                     | 504,674                                     |
| <u>5,073,054</u>              | <u>320,963</u>            | <u>(65,261)</u>         | <u>33,903</u>                         | <u>9,071,369</u>                            |
| <u>\$ 5,073,442</u>           | <u>\$ 172,715</u>         | <u>\$ (14,023)</u>      | <u>\$ 33,903</u>                      | <u>\$ 9,576,043</u>                         |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Funds Year Ended June 30, 2010

|   | 1995 Michigan<br>Transportation<br>Bonds | Refinanced<br>Golf Course<br>Bonds | GBA Bonds          | Total Nonmajor<br>Debt Service<br>Funds |
|---|--|------------------------------------|--------------------|---|
| <b>Revenue</b> - Contribution from component unit | \$ -                                     | \$ 759,095                         | \$ 327,336         | \$ 1,086,431                            |
| <b>Expenditures</b> - Debt service                | <u>145,775</u>                           | <u>759,095</u>                     | <u>327,336</u>     | <u>1,232,206</u>                        |
| <b>Excess of Expenditures Over Revenue</b>        | (145,775)                                | -                                  | -                  | (145,775)                               |
| <b>Other Financing Sources</b> - Transfers in     | <u>145,775</u>                           | <u>-</u>                           | <u>-</u>           | <u>145,775</u>                          |
| <b>Net Change in Fund Balances</b>                | -  | -                                  | -                  | -                                       |
| <b>Fund Balances</b> - Beginning of year          | <u>-</u>                                 | <u>-</u>                           | <u>-</u>           | <u>-</u>                                |
| <b>Fund Balances</b> - End of year                | <u><u>\$ -</u></u>                       | <u><u>\$ -</u></u>                 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u>                      |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2010

|   | Equipment<br>Revolving<br>Fund | Self-insurance<br>Workers'<br>Compensation<br>Fund | Dental<br>Insurance<br>Fund | Self-insurance<br>Optical and<br>Hearing Fund | Insurance<br>Fund | Total        |
|---|--------------------------------|--|-----------------------------|---|-------------------|--------------|
| <b>Assets</b>   |                                |  |                             |   |                   |              |
| Current assets:   |                                |  |                             |   |                   |              |
| Cash and cash equivalents   | \$ 1,558,910                   | \$ 63,658  | \$ 26,122                   | \$ 1,586                                      | \$ 50,385         | \$ 1,700,661 |
| Accounts receivable   | 12,780                         | 64,554   | 376,051                     | 27,674  | 4,440,866         | 4,921,925    |
| Prepays and other assets  | 209,790                        | -  | -                           | -   | 136,000           | 345,790      |
| Total current assets  | 1,781,480                      | 128,212  | 402,173                     | 29,260  | 4,627,251         | 6,968,376    |
| Noncurrent assets:  |                                |  |                             |   |                   |              |
| Due from other funds - Advances                                     | -                              | 4,200,000  | -                           | -   | -                 | 4,200,000    |
| Depreciable capital assets - Net                                    | 3,706,545                      | -  | -                           | -   | -                 | 3,706,545    |
| Total noncurrent assets   | 3,706,545                      | 4,200,000  | -                           | -   | -                 | 7,906,545    |
| Total assets  | 5,488,025                      | 4,328,212  | 402,173                     | 29,260  | 4,627,251         | 14,874,921   |
| <b>Liabilities</b>  |                                |  |                             |   |                   |              |
| Current liabilities:  |                                |  |                             |   |                   |              |
| Accounts payable  | 107,091                        | 124,435  | 138,993                     | 23,792  | 1,179,697         | 1,574,008    |
| Accrued liabilities   | 229,379                        | 4,200,000  | -                           | -   | 3,434,636         | 7,864,015    |
| Current portion of long-term debt                                   | 586,491                        | -  | -                           | -   | -                 | 586,491      |
| Total current liabilities   | 922,961                        | 4,324,435  | 138,993                     | 23,792  | 4,614,333         | 10,024,514   |
| Noncurrent liabilities - Long-term debt -<br>Net of current portion | 2,951,799                      | -  | -                           | -   | -                 | 2,951,799    |
| Total liabilities   | 3,874,760                      | 4,324,435  | 138,993                     | 23,792  | 4,614,333         | 12,976,313   |
| <b>Net Assets</b>   |                                |  |                             |   |                   |              |
| Invested in capital assets - Net<br>of related debt                 | 168,255                        | -  | -                           | -   | -                 | 168,255      |
| Unrestricted  | 1,445,010                      | 3,777  | 263,180                     | 5,468   | 12,918            | 1,730,353    |
| Total net assets  | \$ 1,613,265                   | \$ 3,777   | \$ 263,180                  | \$ 5,468                                      | \$ 12,918         | \$ 1,898,608 |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets - Internal Service Funds Year Ended June 30, 2010

|   | Equipment<br>Revolving<br>Fund | Self-insurance<br>Workers'<br>Compensation<br>Fund | Dental<br>Insurance<br>Fund | Self-insurance<br>Optical and<br>Hearing Fund | Insurance<br>Fund       | Total                      |
|---|--------------------------------|--|-----------------------------|---|-------------------------|----------------------------|
| <b>Operating Revenue - Charges for services</b> | \$ 2,124,611                   | \$ 966,367   | \$ 1,038,879                | \$ 120,336                                    | \$ 21,273,383           | \$ 25,523,576              |
| <b>Operating Expenses</b>                       |                                |  |                             |   |                         |                            |
| Operations and maintenance                      | 1,298,540                      | -  | -                           | -   | -                       | 1,298,540                  |
| Insurance                                       | -                              | 962,647  | 1,036,246                   | 132,628                                       | 21,739,571              | 23,871,092                 |
| Administration                                  | 490,041                        | -  | -                           | -   | 350,501                 | 840,542                    |
| Depreciation                                    | 746,997                        | -  | -                           | -   | -                       | 746,997                    |
| Total operating expenses                        | <u>2,535,578</u>               | <u>962,647</u>                                     | <u>1,036,246</u>            | <u>132,628</u>                                | <u>22,090,072</u>       | <u>26,757,171</u>          |
| <b>Operating (Loss) Income</b>                  | (410,967)                      | 3,720  | 2,633                       | (12,292)                                      | (816,689)               | (1,233,595)                |
| <b>Nonoperating Income (Expenses)</b>           |                                |  |                             |   |                         |                            |
| Investment income                               | 391,572                        | 57   | 177                         | 30  | 8,114                   | 399,950                    |
| Interest expense                                | <u>(216,177)</u>               | <u>-</u>   | <u>-</u>                    | <u>-</u>                                      | <u>-</u>                | <u>(216,177)</u>           |
| Total nonoperating income                       | 175,395                        | 57   | 177                         | 30  | 8,114                   | 183,773                    |
| <b>Transfers to Other Funds</b>                 | <u>(18,466)</u>                | <u>-</u>   | <u>-</u>                    | <u>-</u>                                      | <u>(4,838)</u>          | <u>(23,304)</u>            |
| <b>Change in Net Assets</b>                     | (254,038)                      | 3,777  | 2,810                       | (12,262)                                      | (813,413)               | (1,073,126)                |
| <b>Net Assets - Beginning of year</b>           | <u>1,867,303</u>               | <u>-</u>   | <u>260,370</u>              | <u>17,730</u>                                 | <u>826,331</u>          | <u>2,971,734</u>           |
| <b>Net Assets - End of year</b>                 | <u><b>\$ 1,613,265</b></u>     | <u><b>\$ 3,777</b></u>                             | <u><b>\$ 263,180</b></u>    | <u><b>\$ 5,468</b></u>                        | <u><b>\$ 12,918</b></u> | <u><b>\$ 1,898,608</b></u> |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2010

|   | Equipment<br>Revolving<br>Fund | Self-insurance<br>Workers'<br>Compensation<br>Fund | Dental<br>Insurance<br>Fund | Self-insurance<br>Optical and<br>Hearing Fund | Insurance<br>Fund   | Total               |
|---|--------------------------------|--|-----------------------------|---|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>   |                                |  |                             |   |                     |                     |
| Receipts from customers   | \$ 2,124,637                   | \$ 1,012,210                                       | \$ 994,391                  | \$ 110,389                                    | \$ 20,268,744       | \$ 24,510,371       |
| Payments to employees   | (494,751)                      | -  | -                           | -   | (182,613)           | (677,364)           |
| Payments to suppliers   | (1,330,647)                    | (911,755)  | (968,557)                   | (108,836)                                     | (18,603,039)        | (21,922,834)        |
| Net cash provided by operating activities   | 299,239                        | 100,455  | 25,834                      | 1,553   | 1,483,092           | 1,910,173           |
| <b>Cash Flows from Noncapital Financing Activities</b>                                  |                                |  |                             |   |                     |                     |
| Transfers to other funds  | (18,466)                       | -  | -                           | -   | (4,838)             | (23,304)            |
| Interfund loans - Proceeds and collections  | 886,500                        | (100,000)  | -                           | -   | (1,436,500)         | (650,000)           |
| Net cash provided by (used in) noncapital financing activities                          | 868,034                        | (100,000)  | -                           | -   | (1,441,338)         | (673,304)           |
| <b>Cash Flows from Investing Activities</b> - Interest received                         | 391,572                        | 57   | 177                         | 30  | 8,114               | 399,950             |
| <b>Net Increase in Cash and Cash Equivalents</b>  | 1,558,845                      | 512  | 26,011                      | 1,583   | 49,868              | 1,636,819           |
| <b>Cash and Cash Equivalents</b> - July 1, 2009   | 65                             | 63,146   | 111                         | 3   | 517                 | 63,842              |
| <b>Cash and Cash Equivalents</b> - June 30, 2010  | <u>\$ 1,558,910</u>            | <u>\$ 63,658</u>                                   | <u>\$ 26,122</u>            | <u>\$ 1,586</u>                               | <u>\$ 50,385</u>    | <u>\$ 1,700,661</u> |
| <b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>  |                                |  |                             |   |                     |                     |
| Operating (loss) income   | \$ (410,967)                   | \$ 3,720   | \$ 2,633                    | \$ (12,292)                                   | \$ (816,689)        | \$ (1,233,595)      |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: |                                |  |                             |   |                     |                     |
| Depreciation  | 746,997                        | -  | -                           | -   | -                   | 746,997             |
| Changes in assets and liabilities:  |                                |  |                             |   |                     |                     |
| Accounts receivable   | 26                             | 45,843   | (44,488)                    | (9,947)                                       | (1,004,639)         | (1,013,205)         |
| Prepays and other assets  | (69,748)                       | -  | -                           | -   | 3,405,927           | 3,336,179           |
| Accounts payable  | 19,729                         | 50,892   | 67,689                      | 23,792  | (109,143)           | 52,959              |
| Accrued liabilities   | 13,202                         | -  | -                           | -   | 7,636               | 20,838              |
| Net cash provided by operating activities   | <u>\$ 299,239</u>              | <u>\$ 100,455</u>                                  | <u>\$ 25,834</u>            | <u>\$ 1,553</u>                               | <u>\$ 1,483,092</u> | <u>\$ 1,910,173</u> |



# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2010

| Pension Trust Funds - December 31, 2009                                      |  |   |   |  |                      |
|--|--|---|---|--|----------------------|
|  | General City<br>Employees'<br>Retirement<br>System | Police and Fire<br>Retirement<br>System | General City<br>Employees'<br>Retirement<br>System VEBA | Police and Fire<br>Retirement<br>System VEBA | Total                |
| <b>Assets</b>  |  |   |   |  |                      |
| Cash and cash equivalents  | \$ 100,210   | \$ 100,210                              | \$ -  | \$ -   | \$ 200,420           |
| Cash and investments held as collateral<br>for securities lending            | 83,824,872   | 31,235,409                              | -   | -  | 115,060,281          |
| Accrued interest and dividends receivable                                    | 1,451,943  | 334,870                                 | -   | -  | 1,786,813            |
| Accounts receivable:   |  |   |   |  |                      |
| Due from City of Pontiac Police and Fire<br>Retiree VEBA                     | -  | 59,538                                  | -   | -  | 59,538               |
| Due from City of Pontiac<br>Due from GERS VEBA                               | -  | 195,694                                 | 36,437  | -  | 232,131              |
| Due from City of Pontiac General Employees'<br>Retirement System             | 110,225  | -                                       | -   | -  | 110,225              |
|  | -  | 2,742                                   | -   | -  | 2,742                |
| Investments:   |  |   |   |  |                      |
| Money markets and mutual funds   | 17,358,440   | 5,431,942                               | 6,282,342   | 25,224,298                                   | 54,297,022           |
| U.S. government agency notes<br>and debentures                               | 21,011,469   | 11,226,054                              | -   | -  | 32,237,523           |
| Corporate and other bonds  | 20,202,955   | 19,436,404                              | -   | -  | 39,639,359           |
| Equities   | 255,458,612  | 120,802,835                             | -   | 3,766,299                                    | 380,027,746          |
| Private equities   | 3,732,609  | 11,544,974                              | -   | -  | 15,277,583           |
| U.S. government agency mortgage-backed securities                            | 24,319,609   | 8,984,749                               | -   | -  | 33,304,358           |
| Commercial mortgage pools  | 3,588,241  | 2,323,743                               | -   | -  | 5,911,984            |
| Asset-backed securities  | 8,043,956  | 2,258,275                               | -   | -  | 10,302,231           |
| High-yield bonds   | 26,396,005   | 5,966,776                               | -   | -  | 32,362,781           |
| Index-linked government bonds  | 4,575,689  | -                                       | -   | -  | 4,575,689            |
| Other fixed income   | -  | 31,690,542                              | -   | -  | 31,690,542           |
| Other  | 887,453  | 7,225,931                               | -   | -  | 8,113,384            |
| Total assets   | 471,062,288  | 258,820,688                             | 6,318,779   | 28,990,597                                   | 765,192,352          |
| <b>Liabilities</b>   |  |   |   |  |                      |
| Due to City of Pontiac   | 76,022   | -                                       | -   | 2,213,797                                    | 2,289,819            |
| Due to City of Pontiac General Employees'<br>Retirement System               | -  | -                                       | 110,225   | -  | 110,225              |
| Due to City of Pontiac Police and Fire<br>Retirement System                  | 2,742  | -                                       | 45  | 59,538                                       | 62,325               |
| Accounts payable   | 694,304  | 278,510                                 | 525   | 14,800                                       | 988,139              |
| Amount due broker under securities<br>lending agreement                      | 84,041,640   | 31,319,605                              | -   | -  | 115,361,245          |
| Total liabilities  | 84,814,708   | 31,598,115                              | 110,795   | 2,288,135                                    | 118,811,753          |
| <b>Net Assets</b> - Held in trust for pension and<br>other employee benefits | <b>\$ 386,247,580</b>                              | <b>\$ 227,222,573</b>                   | <b>\$6,207,984</b>                                      | <b>\$26,702,462</b>                          | <b>\$646,380,599</b> |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2010

| Pension Trust Funds - December 31, 2009              |  |   |   |  |                      |
|--|--|---|---|--|----------------------|
|  | General City<br>Employees'<br>Retirement<br>System | Police and Fire<br>Retirement<br>System | General City<br>Employees'<br>Retirement<br>System VEBA | Police and Fire<br>Retirement<br>System VEBA | Total                |
| <b>Additions</b>                                     |  |   |   |  |                      |
| Securities lending income (loss):                    |  |   |   |  |                      |
| Interest and fees                                    | \$ 312,228   | \$ 126,119                              | \$ -  | \$ -   | \$ 438,347           |
| Less borrower rebates and bank fees                  | (101,278)  | (47,240)                                | -   | -  | (148,518)            |
| Less fair value decline on collateral held           | (216,768)  | (84,196)                                | -   | -  | (300,964)            |
| Net securities lending loss                          | (5,818)  | (5,317)                                 | -   | -  | (11,135)             |
| Contributions:                                       |  |   |   |  |                      |
| Employer   | -  | 1,230,190                               | 400,945   | 2,816,172                                    | 4,447,307            |
| Employee   | -  | 264,814                                 | -   | -  | 264,814              |
| Total contributions                                  | -  | 1,495,004                               | 400,945   | 2,816,172                                    | 4,712,121            |
| Investment income:                                   |  |   |   |  |                      |
| Interest and dividends                               | 9,564,855  | 3,457,431                               | 165,118   | 651,507                                      | 13,838,911           |
| Net increase in fair value                           | 63,464,757   | 31,557,670                              | 863,080   | 5,349,950                                    | 101,235,457          |
| Less investment expenses                             | (2,561,652)  | (1,037,502)                             | -   | (45,709)                                     | (3,644,863)          |
| Net investment income                                | 70,467,960   | 33,977,599                              | 1,028,198   | 5,955,748                                    | 111,429,505          |
| Other - Miscellaneous and litigation revenue         | 328,606  | 135,732                                 | -   | -  | 464,338              |
| Total additions - Net                                | 70,790,748   | 35,603,018                              | 1,429,143   | 8,771,920                                    | 116,594,829          |
| <b>Deductions</b>                                    |  |   |   |  |                      |
| Retiree pension benefits and retirement incentives   | (19,992,272)                                       | (14,975,806)                            | -   | -  | (34,968,078)         |
| Retiree health benefit payments                      | -  | -                                       | -   | (2,572,834)                                  | (2,572,834)          |
| Member refunds and withdrawals                       | -  | (929,771)                               | -   | -  | (929,771)            |
| Other expenses                                       | (254,561)  | (151,015)                               | (17,382)  | (26,228)                                     | (449,186)            |
| Administrative expenses                              | (285,881)  | (130,494)                               | -   | -  | (416,375)            |
| Total deductions                                     | (20,532,714)                                       | (16,187,086)                            | (17,382)  | (2,599,062)                                  | (39,336,244)         |
| <b>Net Increase in Net Assets</b>                    | 50,258,034   | 19,415,932                              | 1,411,761   | 6,172,858                                    | 77,258,585           |
| <b>Net Assets Held in Trust for Pension Benefits</b> |  |   |   |  |                      |
| Beginning of year                                    | 335,989,546  | 207,806,641                             | 4,796,223   | 20,529,604                                   | 569,122,014          |
| End of year  | <u>\$ 386,247,580</u>                              | <u>\$ 227,222,573</u>                   | <u>\$6,207,984</u>                                      | <u>\$ 26,702,462</u>                         | <u>\$646,380,599</u> |

# City of Pontiac, Michigan

|                                 | Agency Funds     |                   |                   |                   |
|---------------------------------|------------------|-------------------|-------------------|-------------------|
|                                 | Current Tax      |                   |                   | Fire Insurance    |
|                                 | District         | Collection Fund - |                   |                   |
|                                 | Court            | Winter            | Payroll Fund      | Trust Fund        |
| <b>Assets</b>                   |                  |                   |                   |                   |
| Cash and cash equivalents       | \$ 98,383        | \$ 94,265         | \$ 910,973        | \$ 433,704        |
| Receivables - Other             | -                | -                 | -                 | -                 |
| Total assets                    | <u>\$ 98,383</u> | <u>\$ 94,265</u>  | <u>\$ 910,973</u> | <u>\$ 433,704</u> |
| <b>Liabilities</b>              |                  |                   |                   |                   |
| Due to other governmental units | \$ -             | \$ 94,265         | \$ -              | \$ -              |
| Accounts payable                | 20,460           | -                 | -                 | -                 |
| Accrued and other liabilities   | -                | -                 | 910,973           | 433,704           |
| Deposits                        | <u>77,923</u>    | <u>-</u>          | <u>-</u>          | <u>-</u>          |
| Total liabilities               | <u>\$ 98,383</u> | <u>\$ 94,265</u>  | <u>\$ 910,973</u> | <u>\$ 433,704</u> |

**Other Supplemental Information**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Fiduciary Funds**  
**June 30, 2010**

| Agency Funds                              |  |   |                     |
|---|--|---|---------------------|
| Pontiac Growth<br>Group<br>Administration | Retirement<br>System<br>Administration | Housing<br>Commission<br>Administration | Total               |
| \$ 7,481                                  | \$ 11,432                              | \$ 40,768                               | \$ 1,597,006        |
| -   | 748,486                                | 149,476                                 | 897,962             |
| <b>\$ 7,481</b>                           | <b>\$ 759,918</b>                      | <b>\$ 190,244</b>                       | <b>\$ 2,494,968</b> |
|   |  |   |                     |
| \$ 163                                    | \$ 748,486                             | \$ 150,000                              | \$ 992,914          |
| 137                                       | -                                      | -                                       | 20,597              |
| 7,181                                     | 11,432                                 | 40,244                                  | 1,403,534           |
| -   | -                                      | -                                       | 77,923              |
| <b>\$ 7,481</b>                           | <b>\$ 759,918</b>                      | <b>\$ 190,244</b>                       | <b>\$ 2,494,968</b> |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Balance Sheet Governmental Fund Component Units June 30, 2010

|   | Tax Increment Financing Authority |                     |                   | Downtown<br>Development<br>Authority | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority |
|---|-----------------------------------|---------------------|-------------------|--------------------------------------|--|--|
|   | District 2                        | District 3          | District 4        |                                      |  |  |
| <b>Assets</b>                                       |                                   |                     |                   |                                      |  |  |
| Cash and investments                                | \$ 1,505,732                      | \$ 950,208          | \$ 974,276        | \$ 7,254                             | \$ 1,827,264                           | \$ 531,629                               |
| Due from other component units - Advances           | -                                 | 754,042             | -                 | -                                    | -                                      | -  |
| Property taxes receivable - Net                     | 9,942                             | 7,473               | 1,790             | 10,886                               | -                                      | -  |
| <b>Total assets</b>                                 | <b>\$ 1,515,674</b>               | <b>\$ 1,711,723</b> | <b>\$ 976,066</b> | <b>\$ 18,140</b>                     | <b>\$ 1,827,264</b>                    | <b>\$ 531,629</b>                        |
| <b>Liabilities and Fund Balance (Deficit)</b>       |                                   |                     |                   |                                      |  |  |
| <b>Liabilities</b>                                  |                                   |                     |                   |                                      |  |  |
| Accounts payable                                    | \$ -                              | \$ -                | \$ -              | \$ -                                 | \$ 113                                 | \$ -                                     |
| Property taxes refund payable                       | 1,450,000                         | 870,000             | -                 | -                                    | -                                      | -  |
| Accrued liabilities                                 | -                                 | -                   | -                 | 4,513                                | -                                      | -  |
| Due to other component units - Advances             | -                                 | -                   | -                 | 754,042                              | -                                      | -  |
| Deposits  | -                                 | -                   | -                 | 1,400                                | -                                      | -  |
| Deferred revenue                                    | 9,942                             | 7,473               | 1,790             | 10,886                               | 552,999                                | -  |
| <b>Total liabilities</b>                            | <b>1,459,942</b>                  | <b>877,473</b>      | <b>1,790</b>      | <b>770,841</b>                       | <b>553,112</b>                         | <b>-</b>                                 |
| <b>Fund Balance (Deficit)</b>                       |                                   |                     |                   |                                      |  |  |
| Reserved  | -                                 | -                   | -                 | -                                    | 883,335                                | -  |
| Unreserved, undesignated                            | 55,732                            | 834,250             | 974,276           | (752,701)                            | 390,817                                | 531,629                                  |
| <b>Total fund balance (deficit)</b>                 | <b>55,732</b>                     | <b>834,250</b>      | <b>974,276</b>    | <b>(752,701)</b>                     | <b>1,274,152</b>                       | <b>531,629</b>                           |
| <b>Total liabilities and fund balance (deficit)</b> | <b>\$ 1,515,674</b>               | <b>\$ 1,711,723</b> | <b>\$ 976,066</b> | <b>\$ 18,140</b>                     | <b>\$ 1,827,264</b>                    | <b>\$ 531,629</b>                        |

# City of Pontiac, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Governmental Fund Component Units Year Ended June 30, 2010

|  | Tax Increment Financing Authority |                   |                   | Downtown<br>Development<br>Authority | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority |
|--|-----------------------------------|-------------------|-------------------|--------------------------------------|--|--|
|  | District 2                        | District 3        | District 4        |                                      |  |  |
| <b>Revenue</b>                                     |                                   |                   |                   |                                      |  |  |
| Taxes  | \$ 1,872,735                      | \$ 1,749,943      | \$ 849,130        | \$ 392,302                           | \$ -                                   | \$ 255,032                               |
| Investment income (loss)                           | 6,183                             | (453,772)         | 2,670             | 1,408                                | 7,482                                  | 1,066                                    |
| Other  | 19,000                            | -                 | -                 | 11,075                               | 6,270                                  | -  |
| Total revenue                                      | 1,897,918                         | 1,296,171         | 851,800           | 404,785                              | 13,752                                 | 256,098                                  |
| <b>Expenditures</b>                                |                                   |                   |                   |                                      |  |  |
| Commercial and industrial development              | 322,250                           | 250,101           | 154,803           | 282,644                              | 54,177                                 | 54                                       |
| Debt service                                       | 2,676,342                         | 2,072,706         | 759,095           | -                                    | -                                      | -  |
| Total expenditures                                 | 2,998,592                         | 2,322,807         | 913,898           | 282,644                              | 54,177                                 | 54                                       |
| <b>Net Change in Fund Balances</b>                 | (1,100,674)                       | (1,026,636)       | (62,098)          | 122,141                              | (40,425)                               | 256,044                                  |
| <b>Fund Balances (Deficit) - Beginning of year</b> | 1,156,406                         | 1,860,886         | 1,036,374         | (874,842)                            | 1,314,577                              | 275,585                                  |
| <b>Fund Balances (Deficit) - End of year</b>       | <b>\$ 55,732</b>                  | <b>\$ 834,250</b> | <b>\$ 974,276</b> | <b>\$ (752,701)</b>                  | <b>\$ 1,274,152</b>                    | <b>\$ 531,629</b>                        |

**CITY OF PONTIAC**  
**Pontiac, Michigan**

**SINGLE AUDIT ACT**  
**COMPLIANCE**

**For the Year Ended June 30, 2010**

**CITY OF PONTIAC**  
**Pontiac, Michigan**

**SINGLE AUDIT ACT**  
**COMPLIANCE**

**For the Year Ended June 30, 2010**



# CITY OF PONTIAC

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 30, 2010

To the Emergency Financial Manager of  
the City of Pontiac  
Pontiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, as of and for the year ended June 30, 2010, which collectively comprise the City's financial statements, and have issued our report thereon dated December 30, 2010. The report on the basic financial statements was qualified because we were unable to obtain written representations from the current management of the City as all of the transactions for the year ended June 30, 2010 took place under substantially different management. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors. Other auditors audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City of Pontiac's financial statements. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2010-1, 2010-2, 2010-3, 2010-4, 2010-5, and 2010-6, to be material weaknesses.

*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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2010-7, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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.

In addition, we noted certain matters that we reported to management of the City in a separate letter dated December 30, 2010.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

December 30, 2010

To the Emergency Financial Manager of  
the City of Pontiac  
Pontiac, Michigan

**Compliance**

We have audited the compliance of the City of Pontiac with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Except as disclosed in the following paragraph, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

We were unable to obtain written representations related to federal programs from the current management of the City as all of the transactions for the year ended June 30, 2010 took place under substantially different management.

As described in items 2010-10, 2010-11, 2010-12, and 2010-14, in the accompanying schedule of findings and questioned costs, the City did not comply with the Subrecipient Monitoring and Reporting requirements applicable to its CDBG Entitlement Grants Cluster program and HOME Investment Partnership program and Allowable Costs/Cost Principles and Cash Management requirements applicable to its Clean Water Revolving Loan Funds and Drinking Water Revolving Loan Funds program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, and except for the effects of such noncompliance described in the third paragraph of this report, if any, as might have been determined to be necessary had the written representations been furnished to us by management, the City of Pontiac complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-8, 2010-9, 2010-13, 2010-15, 2010-16, and 2010-17.

### **Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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 a combination of deficiencies, in internal control over compliance such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, as items 2010-10, 2010-11, 2010-12, and 2010-14, to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, as items 2010-8, 2010-9, 2010-13, 2010-15, 2010-16, and 2010-17, to be significant deficiencies.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

**INDEPENDENT AUDITORS' REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 30, 2010

To the Emergency Financial Manager  
City of Pontiac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 30, 2010. The report on the basic financial statements was qualified because we were unable to obtain written representations from the current management of the City as all of the transactions for the year ended June 30, 2010 took place under substantially different management. Our audit includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects such adjustments, if any, as might have been determined to be necessary had the written representations been furnished to us by management, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



# CITY OF PONTIAC

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**YEAR ENDED JUNE 30, 2010**

| Federal Agency/Pass-through Agency Program Title                        | CFDA   | Pass-through Entity | Federal                    |
|---|--------|---------------------|----------------------------|
| <b>U.S. Department of Housing and Urban Development</b>                 |        |                     |                            |
| Direct programs:  |        |                     |                            |
| Community Development Block Grants/Entitlement Grants:                  |        |                     |                            |
| 2008 Program Year   | 14.218 | B-08-MC-26-0009     | \$ 45,522                  |
| 2009 Program Year   | 14.218 | B-09-MC-26-0009     | 148,786                    |
| 2010 Program Year   | 14.218 | B-10-MC-26-0009     | 820,895                    |
| Neighborhood Stabilization Program I                                    | 14.218 | B-08-MN-26-0009     | 221,743                    |
| ARRA - CDBG-R   | 14.253 | B-09-MY-26-0009     | 110,672                    |
| Total Community Development Block Grants                                |        |                     | 1,347,618                  |
| HOME Investment Partnerships Program                                    | 14.239 | M-03-MC-26-0211     | 663,280                    |
| ARRA - Homelessness Prevention and Rapid Re-housing Program             | 14.257 | S09-MY-26-0009      | 284,919                    |
| <b>Total U.S. Department of Housing and Urban Development</b>           |        |                     | <b><u>2,295,817</u></b>    |
| <b>U.S. Department of Energy</b>  |        |                     |                            |
| Direct program -  |        |                     |                            |
| ARRA - Energy Efficiency and Conservation Block Grant                   | 81.128 | DE-SC0002550        | 63,606                     |
| <b>U.S. Department of Transportation</b>                                |        |                     |                            |
| Passed through the Michigan Department of Transportation -              |        |                     |                            |
| Highway Planning and Construction                                       | 20.205 | 49864C              | 2,439,481                  |
| <b>U.S. Environmental Protection Agency</b>                             |        |                     |                            |
| Passed through the Michigan Department of Environmental Quality:        |        |                     |                            |
| ARRA - State Clean Water Revolving Fund                                 | 66.458 | 2W-00E752-01        | 4,372,825                  |
| ARRA - State Drinking Water Revolving Fund                              | 66.468 | 2F-00E751-01        | 564,160                    |
| Pontiac Creek Sub-Watershed - Illicit Discharge Elimination Plan (IDEP) | 66.460 | 2002-0246           | -                          |
| Nonpoint Source Implementation Grants                                   | 66.460 | 2003-0036           | 49,748                     |
| <b>Total U.S. Environmental Protection Agency</b>                       |        |                     | <b><u>4,986,733</u></b>    |
| <b>U.S. Department of Justice</b>                                       |        |                     |                            |
| Direct programs:  |        |                     |                            |
| ARRA - COPS Hiring Recovery Grant                                       | 16.710 | 2009RKWX0452        | 209,646                    |
| Violent Gang Task Force   | 16.609 | 281D-DE-A102972     | 1,209                      |
| <b>Total U.S. Department of Justice</b>                                 |        |                     | <b><u>210,855</u></b>      |
| <b>Total Expenditures of Federal Awards</b>                             |        |                     | <b><u>\$ 9,996,492</u></b> |

See accompanying notes.



**CITY OF PONTIAC**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2010**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Pontiac, Michigan (the City) and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

| <b>Program Title</b>                   | <b><u>CFDA<br/>Number</u></b> | <b><u>Amount Provided<br/>to Subrecipients</u></b> |
|--|-------------------------------|--|
| Community Development Block<br>Grant   |                               |  |
| Grant Program Entitlement<br>Cluster   | 14.218, 14.253 & 14.254       | \$ 50,000  |
| Home Investment Partnership<br>Program | 14.239                        | 595,000  |

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2010**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

|   |  |
|---|--|
| Type of auditors' report issued:                      | <u>Qualified</u>                             |
| Internal control over financial reporting:            |  |
| Material weakness(es) identified?                     | <u>  X  </u> yes <u>      </u> no            |
| Significant deficiency(ies) identified?               | <u>  X  </u> yes <u>      </u> none reported |
| Noncompliance material to financial statements noted? | <u>      </u> yes <u>  X  </u> no            |

**Federal Awards**

|  |  |
|--|--|
| Internal Control over major programs:  |  |
| Material weakness(es) identified?  | <u>  X  </u> yes <u>      </u> no            |
| Significant deficiency(ies) identified?  | <u>  X  </u> yes <u>      </u> none reported |
| Type of auditors' report issued on compliance for major programs:  |  |
| Community Development Block Program  |  |
| Entitlement Cluster  | <u>Qualified</u>                             |
| Home Investment Partnership Program  | <u>Qualified</u>                             |
| Highway Planning and Construction Cluster  | <u>Qualified</u>                             |
| Capitalization Grants for Clean Water  |  |
| State Revolving Funds  | <u>Qualified</u>                             |
| Capitalization Grants for Drinking Water State Revolving Funds   | <u>Qualified</u>                             |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? | <u>  X  </u> yes <u>      </u> no            |

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS (CONCLUDED)**

**Identification of major programs:**

| <u>CFDA Number</u>      | <u>Name of Federal Program or Cluster</u>                         |
|-------------------------|---|
| 14.218, 14.253 & 14.254 | Community Development Block<br>Grant Program Entitlement Cluster  |
| 14.239                  | Home Investment Partnership<br>Program                            |
| 20.205                  | Highway Planning and Construction<br>Cluster                      |
| 66.658                  | Capitalization Grants for Clean<br>Water State Revolving Funds    |
| 66.468                  | Capitalization Grants for Drinking<br>Water State Revolving Funds |

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes      X   no

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2010-1                      Material Audit Adjustments**

|               |   |
|---------------|---|
| Finding type: | Material weakness in internal controls over financial reporting.  |
| Criteria:     | Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (“GAAP”).  |
| Condition:    | During our audit, we identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate, to the City’s financial statements. As a result, the pre-audit financial statements of the City were materially misstated.   |
| Cause:        | Internal controls related to the year end accounting closing process, did not detect all adjustments necessary to properly record year-end balances.  |
| Effect:       | <p>As a result, the following areas were initially misstated:</p> <ul style="list-style-type: none"><li>➤ Federal grant revenue and due from other governments were understated in the Sewer Enterprise Fund by approximately \$555,000.</li><li>➤ Federal grant revenue and due from other governments were understated in the Water Enterprise Fund by approximately \$70,000.</li><li>➤ Income tax revenue and income tax receivable in the General Fund were understated by approximately \$88,000.</li><li>➤ Charges for services and customer receivables in the Sewer Enterprise Fund were overstated by approximately \$263,000.</li><li>➤ Cash and accrued liabilities in various funds were understated by a total approximating \$853,000.</li><li>➤ The allowance for uncollectible accounts and operations and maintenance expense were understated in the Sewer Enterprise Fund by \$309,000.</li><li>➤ The allowance for uncollectible accounts and operations and maintenance expense were understated in the Water Enterprise Fund by \$358,000</li><li>➤ Deferred revenue was overstated and the allowance for uncollectible accounts was understated by approximately \$3,672,000 in the General Fund.</li><li>➤ Deferred revenue was overstated and the allowance for uncollectible accounts was understated in various nonmajor governmental funds by a total approximating \$118,000.</li></ul> |

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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Recommendation: We recommend that finance/administrative procedures be modified to ensure that all year-end adjustments are identified and posted for financial reporting purposes.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-2                      Prior Period Adjustment**

|                               |  |
|-------------------------------|--|
| 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”) and ensuring that all accounting transactions have been recorded.  |
| Condition:                    | During the fiscal year, it was discovered that the City was in possession of stock certificates that had been received from an insurance company over 20 years ago when the company went public. The stock certificates were held by the Human Resources Department and were not recorded in the general ledger or previously issued financial statements. A restatement of beginning fund balance was needed in the amount of \$817,567 to record the market value of the stock certificates at the beginning of the fiscal year. |
| Cause:                        | Internal controls did not detect all accounting transactions necessary to properly record all of the City’s activities.  |
| Effect:                       | As a result, users of prior year’s financial statements were not aware of the true financial condition of the General Fund. Beginning fund balance in the General Fund was understated by \$817,567.   |
| Recommendation:               | We recommend that finance/administrative procedures be modified to ensure that all accounting transactions are identified and posted for financial reporting purposes.   |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

#### 2010-3 Segregation of Incompatible Duties

Finding type: Material Weakness in internal controls over segregation of duties.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept

Condition: As part of our audit procedures, we obtained an understanding of the cash receipting process and performed procedures to ensure the system is functioning as intended. We noted that segregation of duties is lacking in various departments, as noted below.

- Engineering. Currently, there are only two individuals in this department and both are able to collect cash in exchange for permits. We noted that there are no internal controls in place to prevent the misappropriation of cash as permits are not pre-numbered and both individuals have the ability to create permits.
- Income Tax Department. During our review of the income tax department cash receipting process, we noted that there is no evidence of a reconciliation being performed between the general ledger and income tax systems to ensure payments are being applied as appropriate.
- Law Department. During our review of the law department cash receipting process, we noted that there are no controls in place to prevent an employee from accepting cash for payment. The employee could then exclude the cash from the deposit that goes to the Treasurer's office. Cash payments are not usually accepted by this department, but there are no procedures in place to ensure that this is not taking place.

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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- Human Resources Department. During our review of the human resources department cash receipting process, we noted that there is no review being performed of the checks received before they are taken to the Treasurer's office. It was also noted that there is no reconciliation being performed to ensure the amounts given to the Treasurer for deposit are being posted to the accounting software as appropriate.
- Library. During our review of the library's cash receipting process, we noted that two individuals count the cash collected each day, and initial an envelope in which the money is placed to document this review before it is placed in a lockbox until the money is taken to the Treasurer's office for deposit. However, the Library does not retain this envelope so there is no evidence of this review being performed. We also noted that there is no reconciliation being performed between the daily cash receipts and the amounts being taken to the Treasurer's office and entered into the accounting software. Finally, during our review of the library's cash receipting process, we were informed that two individuals count the money before it is taken to the Treasurer's office; however, there is no documentation of this being done.
- Police Dept. During our review of the police department's cash receipting process, we noted that the money and register tape are collected at the end of the day and placed in a safe. In the morning, the Records Clerk, counts the money and agrees it with the register tape. However, there is no count of the cash or reconciliation performed at the end of the day to ensure that the amount the Records Clerk is taking to the Treasurer's office for deposit agrees with what was placed in the safe the night before. We recommend that one of the clerks (someone other than the Records Clerk, who counts the money in the morning) prepare and sign a reconciliation form at the end of the day. When the money is counted in the morning, we suggest that the amount is agreed with the amount that was counted the night before. This reconciliation should contain evidence of the two individuals initials to ensure that more than one individual is involved in the cash receipting process. We also noted that there are no procedures in place to ensure that the amounts taken to the Treasurer's office agree to what is posted to the accounting software.



# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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- Human Resources Director. The Director has absorbed a variety of roles within the City structure. The Director currently oversees the payroll department and acts as the supervisor for the personnel manager. The Director also has input in risk management as evidenced by his involvement in the City's past choice of insurance providers. In addition, the Director calculates the pension "service calculations", serves as the union arbitrator, often has input in labor relations matters and receives, reviews and, in some cases, reconciles civil claims against the City.

Cause: The City lacks a sufficient number of personnel in these locations to ensure complete segregation of duties.

Effect: Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the asset resulting from the transaction. The absence of segregation of duties significantly increases the potential that misstatements (whether caused by error or fraud) may occur and not be detected and corrected by management.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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### **SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

#### **2010-4 Capital Asset Records**

Finding type: Material weakness in internal controls over financial reporting.

Criteria: Management is responsible for maintaining capital asset records in order to properly account for and record activity related to the acquisition, disposition and depreciation of capital assets (i.e. land, construction in progress, streets and bridges, land improvements, building and improvements, equipment, vehicles and furniture).

Condition: The City does not have detailed records to support the approximately \$82,130,000 recorded on the City's books for governmental capital assets.

Cause: The summary schedule that the Finance Department uses to account for the City's capital assets was inherited years ago from individuals previously responsible for the finance and accounting functions of the City.

Effect: By not maintaining detailed records for capital assets, it complicates the accounting for deletions and depreciation of assets. The City has no record to show the individual assets recorded, the cost of each asset and the corresponding depreciation taken on the individual assets. As a result, estimates are used to account for the deletion and depreciation of assets since reliable known data is not readily available.

Recommendation: We recommend that the City take inventory of its capital assets so that the book value of each individual asset can be more readily be estimated.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2010-5                      Cash Disbursement Procedures**

Finding type:            Material weakness in internal controls over the cash disbursement process.

Criteria:                Management is responsible for ensuring proper controls are in place over the cash disbursement process.

Condition:             During the current fiscal year, it was the City’s policy to have approval on every disbursement, prior to the payment being made, by either the Finance Director or the Emergency Financial Manager (“EFM”). We noted that, on various occasions, the required approval did not take place prior to payment. In addition to this lack of approvals, the City was unable to provide support for various expenditures as requested.

In addition, City of Pontiac utilized an abundance of confirming purchase orders during the audit period. Confirming purchase orders increase the possibility of fraud as they allow for vendors to be chosen and payments to be committed to, outside of the approved competitive bid procedures.

Cause:                 The City’s internal controls did not ensure that all disbursements of the City were approved as required by the City’s policy and that documentation was retained to support the expenditures.

Effect:                ➤ Clean Water State Revolving Funds – 16 out of 45 items selected for testing did not have the required approval.

                             ➤ Drinking Water State Revolving Funds – 16 out of 27 items selected for testing did not have the required approval.

                             ➤ Highway Planning and Construction Cluster – 7 of the 35 items selected for testing did not have the required approval.

                             ➤ General City Expenditures – 2 of the items selected for testing did not have the required approval and for 12 of the items, support was unable to be provided.

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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Recommendation: We recommend that the City implement procedures to ensure that proper approvals are taking place prior to amounts being disbursed to ensure payments are made only for legitimate business purposes of the City and that support for all City disbursements be retained.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2010-6**

#### **Purchasing Procedures**

|                               |  |
|-------------------------------|--|
| Finding type:                 | Material weakness in internal controls over purchasing procedures.   |
| Criteria:                     | Management is responsible for ensuring proper controls are in place over the purchasing function of the City.  |
| Condition:                    | During our audit, we reviewed the City's medical costs including amounts paid to the City's health insurance provider. We noted that a signed contract did not exist between the City and its health insurance provider. |
| Cause:                        | The City's internal controls did not ensure that all purchases follow the policies of the City.  |
| Effect:                       | During the fiscal year, the City made payments to the vendor in excess of \$18 million absent a signed contract.   |
| Recommendation:               | We recommend that the City implement procedures to ensure that the City's purchasing policies are being followed.  |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION II – FINANCIAL STATEMENT FINDINGS (CONCLUDED)

**2010-7                      Building Deposits Payable**

|                               |  |
|-------------------------------|--|
| Finding type:                 | Significant deficiency in internal controls over financial reporting.  |
| Criteria:                     | Management is responsible for maintaining subsidiary records for all of the accounts on the City's general ledger.   |
| Condition:                    | The Building Department does not maintain a master listing of all outstanding building bonds collected and due back to developers and/or residents.  |
| Cause:                        | The Building Department maintains records for each developer and/or resident that has paid a bond and has the ability to locate the amount owed to each individual by looking up the individual's account. The Building Department, however, has never kept a master listing of the amounts owed to ensure that the amounts owed per each account totals the liability that is recorded on the City's books. |
| Effect:                       | There is a liability on the City's books for approximately \$610,000. However, this general ledger amount is not periodically reconciled to the records maintained by the Building Department. This lack of reconciliation leads to a higher risk that errors will not be prevented or detected.   |
| Recommendation:               | We recommend that the Building Department comprise a detail of the buildings bonds collected and to whom these bonds are due back.   |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2010-8                      Cash Management – Cash requests**

|                               |   |
|-------------------------------|---|
| Finding type:                 | Noncompliance; Significant deficiency in internal controls over compliance.   |
| Program:                      | Highway Planning and Construction Cluster (CFDA# 20.205, 20.219 & 23.003)   |
| Criteria:                     | The OMB Circular A-133 Compliance Supplement requires that federal funds recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. |
| Condition:                    | During our testing, we noted reimbursement requested for an expense that was not paid timely in comparison to the date of the drawdown of federal funds.  |
| Cause:                        | The Department of Public Works and Utilities does not currently have a formal review procedure designed to ensure that funds are expended before or shortly after they are requested for reimbursement.         |
| Effect:                       | Of the 3 drawdowns selected for testing, we noted one invoice on one drawdown for \$28,176 that was not paid until a month after the date of the drawdown.  |
| Recommendation:               | We recommend that the Department of Public Works and Utilities implement a review process to ensure that time is minimized between the transfer of funds from the U.S. Treasury and disbursement.               |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.   |

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

#### **2010-9                      Reporting – 1512 Reports**

Finding type:              Noncompliance; Significant deficiency in internal controls over compliance

Program:                      CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)  
Clean Water State Revolving Funds (CFDA# 66.458)  
Drinking Water State Revolving Funds (CFDA# 66.468)

Criteria:                      As part of the Federal Government’s transparency and oversight requirements of the Recovery Act, section 1512 of the Act requires reporting on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. Among other things, the recipients’ reports are required to disclose the vendors receiving more than \$25,000 of Recovery Act funds.

Condition:                      The Federal Programs Department does not have procedures in place to ensure that 1512 reports are filed no later than the 10<sup>th</sup> day after the end of each calendar quarter, and certain reports were not filed within that time frame. The Department of Public Works and Utilities does not have procedures in place to ensure that the 1512 reports only report vendors that receive \$25,000 or more Recovery Act funds directly from the recipient.

Cause:                              The Federal Programs Department and the Department of Public Works and Utilities’ procedures related to these requirements were not sufficient to prevent noncompliance with section 1512 of the Recovery Act.

Effect:                              ➤ CDBG Entitlement Grants Cluster – 2 of the 4 quarterly reports were completed and submitted later than the 10<sup>th</sup> day after the end of the calendar quarter.  
➤ Clean Water State Revolving Funds – 4 vendors listed on quarterly 1512 reports did not receive \$25,000 of cumulative payments from the City.  
➤ Drinking Water State Revolving Funds – 1 vendor listed on a quarterly 1512 report did not receive \$25,000 of cumulative payments from the City.



# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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Recommendation: We recommend that the Federal Programs Department and Department of Public Works and Utilities implement a review process to ensure that identified deficiencies are corrected.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**2010-10                      Cash Management – Cash requests**

|                               |   |
|-------------------------------|---|
| Finding type:                 | Material Noncompliance; Material weakness in internal controls over compliance  |
| Program:                      | Clean Water State Revolving Funds (CFDA# 66.458)<br>Drinking Water State Revolving Funds (CFDA# 66.468)   |
| Criteria:                     | The OMB Circular A-133 Compliance Supplement requires that federal funds recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.   |
| Condition:                    | During our testing, we noted reimbursement was requested for expenses that were not paid timely in comparison to the date of the drawdown of federal funds.   |
| Cause:                        | The Department of Public Works and Utilities does not currently have a formal review procedure designed to ensure that funds are expended before or shortly after they are requested for reimbursement.   |
| Effect:                       | <ul style="list-style-type: none"><li>➤ Clean Water State Revolving Funds – 28 of 45 invoices selected for testing were not disbursed timely after the transfer of funds from the U.S. Treasury.</li><li>➤ Drinking Water State Revolving Funds – 9 of 27 invoices selected for testing were not disbursed timely after the transfer of funds from the U.S. Treasury.</li></ul> |
| Recommendation:               | We recommend that the Department of Public Works and Utilities implement a review process to ensure that time is minimized between the transfer of funds from the U.S. Treasury and disbursement.   |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.   |

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**2010-11**

**Subrecipient Monitoring – During-the-Award Monitoring**

Finding type: Material Noncompliance; Material weakness in internal controls over compliance.

Program: CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)  
HOME Investment Partnership Program (CFDA# 14.239)

Criteria: OMB Circular A-133 requires monitoring subrecipients' use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and also that performance goals are achieved.

Condition: During our testing, we noted that the Federal Programs Department did not perform during-the-award monitoring for subrecipients. During the current fiscal year, HUD performed an onsite monitoring visit of the CDBG Entitlement Grants Cluster and the HOME Investment Partnership Program and reported this finding as well.

Cause: The Federal Programs Department did not schedule during-the-award monitoring for one subrecipient before year end.

Effect: The Federal Programs Department did not perform onsite during-the-award monitoring of Lighthouse Community Development during the fiscal year for either the CDBG Entitlement Grants Cluster or the HOME Investment Partnership Program.

Recommendation: We recommend that the Federal Programs Department implement procedures to ensure that it performs during-the-award monitoring of all subrecipients during the fiscal year.

View of Responsible Official: I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

#### 2010-12                      Reporting – HUD 60002 Report

|                               |  |
|-------------------------------|--|
| Finding type:                 | Material Noncompliance; Material weakness in internal controls over compliance.  |
| Program:                      | CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)<br>HOME Investment Partnership Program (CFDA# 14.239)  |
| Criteria:                     | For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, <i>Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons</i> (24 CFR sections 135.3(a) and 135.90). This is a performance report that contains information related to the number of new hires that are Section 3 residents, the dollar amount of construction and non-construction contracts awarded on the project and the total dollar amount of contracts awarded to Section 3 businesses. |
| Condition:                    | The Federal Programs Department does not have a system in place that reminds staff what program specific performance reports are required to be prepared.  |
| Cause:                        | The Federal Programs Department was not aware that the HUD 60002 report was required to be completed and filed yearly.   |
| Effect:                       | The Federal Programs Department did not prepare or submit the required HUD 60002 report.   |
| Recommendation:               | We recommend that the Federal Programs Department implement procedures to ensure that program staff is aware of all reports that are required to be submitted to grantor agencies.   |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

|                               |   |
|-------------------------------|---|
| <b>2010-13</b>                | <b>Special Tests and Provisions – Accounting for ARRA Expenditures</b>  |
| Finding type:                 | Noncompliance; Significant deficiency in internal controls over compliance  |
| Program:                      | CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)   |
| Criteria:                     | OMB Circular A-133 requires that expenditures of ARRA funds be accounted for separately from expenditures of non-ARRA funds.                                      |
| Condition:                    | The Finance Department did not account for expenditures of ARRA funds separately from expenditures of non-ARRA funds.   |
| Cause:                        | The Finance Department's procedures related to this requirement were not sufficient to prevent noncompliance.   |
| Effect:                       | The Finance Department had expenditures related to the CDBG-R grant comingled with non-ARRA CDBG grant expenditures.  |
| Recommendation:               | We recommend that finance/administrative procedures be modified to ensure that ARRA related expenditures are accounted for separately from non-ARRA expenditures. |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.                       |

# CITY OF PONTIAC

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

|                               |  |
|-------------------------------|--|
| <b>2010-14</b>                | <b>Allowable Costs/Cost Provisions – Disbursement Documentation</b>  |
| Finding type:                 | Material Noncompliance; Material weakness in internal controls over compliance   |
| Program:                      | Clean Water State Revolving Funds (CFDA# 66.458)<br>Drinking Water State Revolving Funds (CFDA# 66.468)  |
| Questioned costs:             | ➤ Clean Water State Revolving Funds – \$110,181<br>➤ Drinking Water State Revolving Funds – \$38,342   |
| Criteria:                     | Per the OMB Circular A-133 Compliance Supplement, expenditures should be for actual costs that are adequately documented.  |
| Condition:                    | The Federal Programs Department and the Department of Public Works and Utilities had multiple disbursement transactions charged to federal programs that the Finance Department could not support with adequate documentation. |
| Cause:                        | The Finance Department has not implemented adequate internal controls to ensure that disbursements documentation is maintained for expenditures charged to federal programs.   |
| Effect:                       | ➤ Clean Water State Revolving Funds – Documentation for 15 out of 45 items was not available.<br>➤ Drinking Water State Revolving Funds – Documentation for 5 out of 27 items was not available.                               |
| Recommendation:               | We recommend that finance/administrative procedures be modified to ensure that expenditures charged to federal programs are adequately documented and maintained.  |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

#### **2010-15                      Suspension and Debarment – Verification of Vendors**

Finding type:                      Noncompliance; Significant deficiency in internal controls over compliance

Program:                              CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)  
    Clean Water State Revolving Funds (CFDA# 66.458)  
    Drinking Water State Revolving Funds (CFDA# 66.468)  
    HOME Investment Partnership Program (CFDA# 14.239)

Questioned costs:                      No costs were questioned inasmuch as none of the vendors selected for testing were actually suspended or debarred.

Criteria:                                Per the OMB Circular A-133 Compliance Supplement, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000.

Condition:                              The Federal Programs Department and Department of Public Works and Utilities entered into contracts without performing suspension and debarment verification for contracts greater than \$25,000.

Cause:                                    The Federal Programs Department and Department of Public Works and Utilities did not have controls in place to ensure that all contracts expected to exceed \$25,000 contained suspension and debarment language or had documentation that City employees checked for the vendor on the Federal Excluded Parties List System.

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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|                               |  |
|-------------------------------|--|
| Effect:                       | <ul style="list-style-type: none"><li>➤ CDBG Entitlement Grants Cluster – 3 of 4 items selected for testing did not have documented verification.</li><li>➤ Clean Water State Revolving Funds – 1 of 5 items selected for testing did not have documented verification.</li><li>➤ Drinking Water State Revolving Funds – 1 of 3 items selected for testing did not have documented verification.</li><li>➤ HOME Investment Partnership Program – 2 of 3 items selected for testing did not have documented verification.</li></ul> |
| Recommendation:               | We recommend that the Federal Programs Department and the Department of Public Works and Utilities implement procedures to ensure that all vendors with whom the City has contracts that are expected to exceed \$25,000 are verified as being neither suspended nor debarred.   |
| View of Responsible Official: | I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.  |



# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

#### **2010-16                      Procurement – Open Competition**

Finding type:                      Noncompliance; Significant deficiency in internal controls over compliance

Program:                              HOME Investment Partnership Program (CFDA# 14.239)

Questioned costs:                  The amount of costs in question is \$29,473.

Criteria:                              34 CFR section 80.36 requires that bidding procedures be used to ensure open competition for all contracts in excess of \$100,000. The City's procurement policy lowers this threshold and requires sealed bids for all purchases over \$10,000.

Condition:                            The Federal Programs Department was not following its procurement policy for open competition as it relates to receiving sealed bids.

Cause:                                  The Federal Programs Department was not able to provide documentation showing it complied with its procurement policy for one contract tested.

Effect:                                  The Federal Programs Department did not have documentation showing sealed bids were received for the contract awarded to Pontiac Drywall Systems, Inc.

Recommendation:                  We recommend that the Federal Programs Department maintain documentation to show that sealed bids were received for all contracts over \$10,000.

View of  
Responsible  
Official:                                  I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

# **CITY OF PONTIAC**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)**

#### **2010-17                      Equipment and Real Property Management**

Finding type:                      Noncompliance; Significant deficiency in internal controls over compliance

Program:                              CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)

Criteria:                              34 CFR section 80.32 & 45 CFR section 92.32 require that equipment purchased with Federal awards be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition:                              As of June 30, 2010 a listing of equipment purchased with federal funds had not been prepared. The Federal Programs Department had also not performed a physical inventory for equipment during the past two years

Cause:                                      The Federal Programs Department was not aware of this requirement.

Effect:                                      As of June 30, 2010 the Federal Programs Department was not in compliance with this requirement.

Recommendation:                      We recommend the Federal Programs Department implement procedures to assure it prepares an equipment listing and performs a physical inventory once every two years.

View of  
Responsible  
Official:                              I concur with these findings and will be contacting the State Department of Treasury to develop required resources to address the findings.

**CITY OF PONTIAC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**SECTION IV – PRIOR YEAR FINDINGS**

- 2009-01      Suspension and Debarment**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding not adequately resolved. See finding 2010-15 for current year finding.
- 2009-02      Subrecipient Monitoring**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding not adequately resolved. See finding 2010-11 for current year finding.
- 2009-03      Federal Cash Transaction Reports**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding adequately resolved.
- 2009-04      Drawdown Requests**  
*CDBG Entitlement Grants Cluster (CFDA# 14.218, 14.253 & 14.254)*  
Finding adequately resolved.

\* \* \* \* \*

December 30, 2010

To the Emergency Financial Manager  
City of Pontiac

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Pontiac*** (the “City”) for the year ended June 30, 2010, and have issued our report thereon dated December 30, 2010. The report on the basic financial statements was qualified because we were unable to obtain written representations from the current management of the City as all of the transactions for the year ended June 30, 2010 took place under substantially different management. Other auditors audited the financial statements of the General City Employees’ Retirement System, the Police and Fire Retirement System, the General Employee’s Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City of Pontiac’s financial statements. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated August 12, 2010, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget*

(OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

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

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 12, 2010.

### **Significant Audit Observations**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except that the City has followed the provisions of Statement No. 60 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Service Concession Arrangements" related to a lease agreement entered into with a third party to operate the Pontiac Municipal Golf Course. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 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 the OPEB liability is based primarily on information provided by the third party actuary.

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These misstatements are disclosed in the Schedule of Findings and Questioned Costs in the City's Single Audit Report.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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*

The report on the basic financial statements was qualified because we were unable to obtain written representations from the current management of the City as all of the transactions for the year ended June 30, 2010 took place under substantially different management.

#### *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 the entity'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 prior to being hired as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our being hired.

This information is intended solely for the use of the Emergency Financial Manager 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.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## City of Pontiac

### Attachment A - Consideration of Internal Control Over Financial Reporting

#### For the Year Ended June 30, 2010

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In planning and performing our audit of the financial statements of the City of Pontiac (the “City”) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City’s Single Audit report.

*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. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City’s Single Audit report.

#### **Credit Adjustments to the Water and Sewer Utility Billing System**

Through our review of the water and sewer utility billing system and inquiry of staff, we noted that all employees have the ability to make credit adjustments to the system. When an adjustment is made a voucher is provided to the Supervisor who reviews and approves the adjustment, however, no report is generated from the system showing all of the adjustments. We recommend that a report be run periodically showing all of the credit adjustments made to the system and that this report is reviewed and approved by someone who does not have the ability to make adjustments to the system to ensure that all adjustments are being reviewed by someone independent of the process.



## **City of Pontiac**

### **Attachment A - Consideration of Internal Control Over Financial Reporting**

**For the Year Ended June 30, 2010**

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#### **Stale Checks**

During our testing of the City's cash and bank reconciliations, it came to our attention that there is a significant number of checks that have been outstanding for more than one year. Michigan Compiled Law (MCL) 567.234 states: "Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned." The law requires the person holding unclaimed property presumed abandoned and subject to the State's custody, to send written notification ("due diligence letter") to the owner at their last known address informing them that the property is subject to be turned over to the State of Michigan. The notice must be sent not less than 60 days before filing the report to the State of Michigan. MCL 567.238 requires the letter to the owner along with the unclaimed property to be filed with the State Treasurer on or before November 1 of each year for the twelve month period ending on the immediately preceding June 30. We recommend that the City examine old outstanding checks and follow the procedures detailed above.

#### **IBNR Calculations**

In the City's self insurance funds there are estimates for incurred but not reported ("IBNR") claims. It is the City's policy to estimate these amounts based on factors including industry standards and annual claims paid. While these amounts will always be estimates, the Finance Department should be looking at these estimates more closely and performing additional analysis to ensure these estimates continue to be reasonable. We recommend that the Finance Department obtain 'loss history summaries' from the City's third party administrators and use this information to create a 'tail analysis' using the year of the loss amounts and the year in which they were actually paid to estimate the City's IBNR amounts.

#### **Cash Flows**

The City reports significant interfund receivables in the General Fund due from the Police and Fire Retirement system VEBA pension trust fund. Given the financially distressed state of the City and its cash flow issues, we recommend that the City evaluate whether such interest free loans are a prudent business practice. Future loans, if any, should include formal repayment terms and interest provisions, to the extent provided by law.

## City of Pontiac

### Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

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#### **Unresolved HUD Monitoring Findings**

During the fiscal year ended June 30, 2010, the Department of Housing and Urban Development (“HUD”) performed onsite monitoring of the CDBG, NSP, HOME and HPRP programs. HUD reported findings for all of the aforementioned programs, some of which remain unresolved. Following are the unresolved HUD findings that are not included in the Single Audit Report Schedule of Findings and Questioned Costs (the numbers listed below coincide with the finding numbers in HUD’s report):

#### **HOME Investment Partnership Program**

4. Affirmative marketing procedures
6. No Documentation that the current CHDO’s meet requirements
7. Missing homeowner and homebuyer agreements
10. Inadequate capacity in the homeowner rehabilitation activity

#### **CDBG**

2. No documentation of low/moderate income benefit
4. The City exceeded administrative 20% cap

#### **NSP**

1. Failure to meet standards for financial management system
2. Failure to solicit women and minority business enterprises

#### **HPRP**

1. Evidence that participants met the “but for” criteria was not present
2. Failure to sufficiently document and/or perform lead based paint assessments.

We recommend The Federal Programs Department implement procedures to assure that the City is in compliance with all HUD compliance requirements.

#### **Cell Phones**

The City does not currently maintain a list of approved cell phone users. As a result, the City is likely incurring at least some charges that are not reasonable and necessary. The City should inventory its cell phones and shut down unnecessary service.

## **City of Pontiac**

### **Attachment A - Consideration of Internal Control Over Financial Reporting**

**For the Year Ended June 30, 2010**

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#### **Computers**

The City does not currently maintain a list of purchased computers, including laptops. The City should inventory its computers to ensure that only employees are in possession of these computers and that they are being used only for City use.

#### **Police Department Evidence Rooms**

The City should establish a policy that requires that a periodic detailed inventory be conducted for the Police department evidence rooms. Additional training should also be provided to officers in the proper procedures for evidence submission, retention, destruction and return. Strong consideration should also be given to updating software to allow for more efficient recordation and tracking of evidence.

#### **General IT Controls**

The following items should be considered:

- Periodically review the disaster recovery plan for the changing IT control environment.
- Require the use of complex passwords that use multiple characters, such as, upper case, lower case, numbers and symbols. In addition, user access should be periodically reviewed to assure privileges originally granted agree with what was approved.
- Strengthen procedures to detect and/or prevent the use of unauthorized software.
- Electronic reports that are not printed should be filed in a document management system.
- Error and exception reports that are created by processing routines should be reviewed.

#### **Parking System**

Recommendations related to the management of the parking structure were identified during a past study by The Whall Group in February 2006. The City should consider implementing these recommendations to enhance internal controls.

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