City of Pontiac, Michigan

Year Ended
June 30, 2012

Financial Statements

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CITY OF PONTIAC, MICHIGAN

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CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 28, 2012

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* (the "City") as of and for the year ended June 30, 2012, 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.

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.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has accumulated fund deficits in five funds and in one component unit. Management's plans with regard to these matters are described in Note 3 and Note 21.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 28, 2012, on our consideration of the City'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund and the schedules of funding progress and employer contributions for the pension and other postemployment benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Our discussion and analysis of the City of Pontiac, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. 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, 2012:

- The General Fund incurred an operating deficit totaling $3,980,326 for the year ended June 30, 2012, eliminating the prior year fund balance and ending the 2012 fiscal year with a fund deficit of $3,425,594. Despite significant drops in both property tax and state revenue sharing, the General Fund did see an overall increase in revenue by approximately $3,076,000. Total expenditures in the year increased by approximately $10,476,000 from 2011. The overall increase in expenditures from 2011was primarily due to the 2011 year did not include any expenditure for pension and VEBA contributions. In addition, the continued significant drop in property taxes citywide resulted in the General Fund making a transfer of approximately $1,700,000 to the TIFA Funds to cover annual debt service costs which they could otherwise not make. The overall results did come out significantly better than budgeted due to significant work by all departments, the EFM and his management team.

- The emergency financial manager continues develop and amend his operating plan with the overall goal of eliminating the annual operating deficit and cumulative General Fund deficit. See Note 19 for more detail.

- General Fund Property and tax and state revenue decreased in the current year compared to the prior year of approximately $2.6 Million and $2.2 million, respectively.

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 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.

Government-wide Financial 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 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.

- *Discretely Presented Component Units* – The City includes four other entities in its report - the Tax Increment Financing Authority, the Downtown Development Authority, the Economic Development Corporation, and the Brownfield Redevelopment Authority. 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).

Management's Discussion and Analysis

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.

The City as a Whole

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

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$20,346,313	$31,333,997	$22,748,758	$19,968,131	$43,095,071	$51,302,128
Capital assets, net	107,799,788	96,944,775	66,691,295	63,388,327	174,491,083	160,333,102
Total assets	128,146,101	128,278,772	89,440,053	83,356,458	217,586,154	211,635,230
Liabilities						
Current liabilities	14,164,323	13,378,892	2,461,121	4,312,222	16,625,444	17,691,114
Long-term liabilities	55,649,952	63,790,122	19,007,267	14,410,311	74,657,219	78,200,433
Total liabilities	69,814,275	77,169,014	21,468,388	18,722,533	91,282,663	95,891,547
Net assets:						
Invested in capital assets, net of related debt	106,022,744	92,335,365	50,980,831	52,000,339	157,003,575	144,335,704
Restricted	7,501,211	9,451,379	1,712,756	1,929,233	9,213,967	11,380,612
Unrestricted	(55,192,129)	(50,676,986)	15,278,078	10,704,353	(39,914,051)	(39,972,633)
Total net assets	$58,331,826	$51,109,758	$67,971,665	$64,633,925	$ 126,303,491	$ 115,743,683

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 $55.2 million in 2012. 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 $15.3 million in 2012, 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 increased by 9.1 percent from a year ago – increasing from $115.7 million for fiscal year 2011 to $126.3 million in 2012. The increase is comprised of a $7.3 million increase in governmental activities net assets and a $3.3 million increase in business-type activities net assets.

For governmental activities, the majority of the increase is a result of the decrease in the other postemployment benefits expense from the elimination of employees from the outsourcing of many departments in current and prior years. In addition, liabilities also decrease due to the debt forgiveness that occurred as a result of the negotiations with the outstanding GM property tax liability.

For business-type activities, the increase is primarily due to increases in charges for services revenue having been sufficient to ensure assets are available to cover the increasing liabilities. The overall increase in liabilities is primarily a result of the increase in in the other postemployment benefits liability.

Management's Discussion and Analysis

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

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	$ 8,207,529	$ 6,323,339	$22,709,848	$22,823,764	$30,917,377	$29,147,103
Operating grants	18,643,330	8,343,532	103,497	-	18,746,827	8,343,532
Capital grants	-	2,232,255	577,858	2,513,015	577,858	4,745,270
General revenues:						
Property taxes	13,532,718	15,559,259	-	(91,870)	13,532,718	15,467,389
Income taxes	9,724,580	8,991,164	-	-	9,724,580	8,991,164
State shared revenues	8,427,715	10,524,000	-	-	8,427,715	10,524,000
Unrestricted investment earnings	2,956	126,586	458	2,751	3,414	129,337
Cable franchise fees	532,774	663,640	-	-	532,774	663,640
Contribution from component units	-	814,385	-	-	-	814,385
Total revenues	59,071,602	53,578,160	23,391,661	25,247,660	82,463,263	78,825,820
Expenses:						
General government	26,886,395	13,279,644	-	-	26,886,395	13,279,644
Public safety	19,243,207	26,408,700	-	-	19,243,207	26,408,700
Public works	2,983,478	8,173,113	-	-	2,983,478	8,173,113
Community development	8,896,024	-	-	-	8,896,024	-
Community and human services	758,042	5,034,645	-	-	758,042	5,034,645
Interest on long-term debt	988,547	1,103,567	-	-	988,547	1,103,567
Water	-	-	11,766,610	9,840,415	11,766,610	9,840,415
Sewer	-	-	8,989,117	9,586,895	8,989,117	9,586,895
Parking	-	-	1,354,507	1,192,579	1,354,507	1,192,579
Golf course	-	-	45,831	19,940	45,831	19,940
Total expenses	59,755,693	53,999,669	22,156,065	20,639,829	81,911,758	74,639,498
Excess of revenue (under) over expenses before special items and transfers	(684,091)	(421,509)	1,235,596	4,607,831	551,505	4,186,322
Special items - debt forgiveness	9,508,303	-	500,000	-	10,008,303	-
Transfers	(1,602,144)	(776,206)	1,602,144	776,206	-	-
Change in net assets	7,222,068	(1,197,715)	3,337,740	5,384,037	10,559,808	4,186,322
Net assets:						
Beginning of year	51,109,758	52,307,473	64,633,925	59,249,888	115,743,683	111,557,361
End of year	$58,331,826	$51,109,758	$67,971,665	$64,633,925	$ 126,303,491	$ 115,743,683

Governmental Activities. Overall revenue increase to approximately $59.0 million for 2012, which is an increase of approximately $5.4 million from last year's total of $53.6 million. The increase is a result of substantial operating grants offsetting decreases in property taxes, state revenue and capital grants.

Expenses for the City's governmental activities totaled $59.8 million, which is an increase of approximately $5.8 million from last year's total of $53.6 million. The increase in the overall expense is due to increased grant expenditures in community development offset by expense reductions in public safety.

Overall total net assets increase by approximately $7.2 million to $58.3 million compared to the 2011 total of $51.1 million. The primary reason for the overall increase was the special item of the forgiveness of debt totaling $9.5 million. This one-time item was a result of negotiating debt forgiveness on a debt due to a taxpayer on several years of property tax appeals.

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 in December 2009 to generate sufficient cash flows to cover the annual operating, maintenance, and replacement costs. The Water Fund had operating income of $1.0 million in 2012 compared to $2.7 million in 2011. The operating income continues to be a result of previous increases in water rates.

The City provides sewage treatment through a City-owned and operated sewage treatment plant. The Sewer Fund rates were increased in December 2009 to cover the annual operating, maintenance, and replacement costs. The Sewer Fund had operating income of $1.4 million in 2012 compared to $0.5 million in 2011. Similar to water operations, the operating income was a result of an increase in sewer sales revenue compared to prior year, as well as a slight decrease in operating expenses.

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 2012 was approximately $0.8 million compared to $0.5 million in 2011.

The City-owned golf course sustained an operating loss in 2012 of approximately $33,000 compared to $10,800 in 2011. The General Fund subsidized $19,948 in 2012 compared to $13,000 in 2011 to cover the cost of operations. The slight increase in the operating loss and General Fund subsidy is due to the City paying for property valuations as the City continues to explore other options for operating the golf course, including selling the property. The City is currently leasing the golf course operations to an outside management company since April 2010. See Note 20 for more information. In addition, the 2000 Municipal Golf Course Bonds are the responsibility of the golf course until maturity of the bonds in fiscal year 2012. 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 $756,000.

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, 2012 is the General Fund.

The City eliminated the cumulative General Fund deficit during 2011 and did many significant items to eliminate the annual operating deficit but did not eliminate it. As a result of the continued loss of significant operating revenues (property taxes and state revenue), the city incurred an operating deficit during 2012 that dropped the General Fund back into a cumulative deficit. The loss of revenue continues to outpace the significant drop in expenditures. The city expects the significant loss of revenue to continue into next fiscal year.

The city had an operating shortfall of approximately $3,980,000 and a cumulative deficit of approximately $3,425,000 resulted from the following activity in 2012:

- The fiscal year 2010 contribution to the GERS VEBA of about $300,000 was made during the current year.
- Loss of the one-time GERS VEBA reimbursement of eligible retiree healthcare costs which totaled approximately $4 million in 2011.
- General Fund had to make a transfer to TIFA 2 of approximately $1.7 million to cover debt service due to the loss of property tax revenue.

Operating Revenue and Expenditures - The General Fund had total revenue of $38.7 million and total expenses of $39.9 million in 2012 compared to $35.6 million in revenue and $29.5 million in expenses in 2011. Property and income taxes are $18.8 million, or 53 percent, of General Fund revenue in 2012. Property and income taxes decreased 10 percent from 2011 due to economic conditions impacting the property tax base. In addition, state-shared revenue is $8.5 million, or 24 percent, of General Fund revenue in 2012 and decreased 20 percent from 2011.

Despite the increase in revenue, the General Fund expenditures also increased (most of 2012 increase due to 2011 expenditures excluded pension and VEBA contributions). The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately $20.3 million in 2012 compared to $17.1 million in 2011. These two service areas represent 55 percent of the General Fund's expenditures and are primarily funded through general revenue such as taxes and state shared revenue. However, the City did receive a federal grant of about $936,000 to cover police expenditures in the current year.

Other Financing Uses - The General Fund transferred a total of $2.9 million to other funds, including an operating subsidy to the District Court of $2.2 million in 2012.

Management's Discussion and Analysis

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:

	2007	2008	2009	2010	2011	2012
Fund Balance (deficit):						
Unreserved (deficit)	$ (6,142,240)	$ (7,071,957)	$ (4,790,071)	$ (4,089,199)	$ -	$ -
Reserved	64,000	64,000	-	-	-	-
Nonspendable	-	-	-	-	-	1,322,523
Unassigned (deficit)	-	-	-	-	554,732	(4,748,117)
Total fund balance (deficit)	$ (6,078,240)	$ (7,007,957)	$ (4,790,071)	$ (4,089,199)	$ 554,732	$ (3,425,594)

In 2009, the City recorded a prior period adjustment of $817,000, decreasing the fund deficit relating to value of stock held.

General Fund Budgetary Highlights

As noted above, the General Fund generated an operating loss of approximately $3,980,000 during the year ended June 30, 2012. An operating deficit existed in prior year and in each of the past several years and continues primarily as a result of significant losses revenue on an annual basis outpacing significant expenditure reductions. The city utilized some additional one-time items to minimize the increase in the deficit and yielding revenues over the final budgeted amounts and expenditures under the final budgeted amounts.

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

Capital Asset and Debt Administration

During 2012, the City had invested $27.0 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.

The City was forgiven $2,000,000 and $9,000,000 of debt during the year relating to General Motors and Motors Liquidation Company property tax appeal settlements and refund obligations. Governmental activities of the City and TIFA are still responsible for repayment of $896,277 and $1,047,710, respectively.

New debt incurred in the enterprise funds during the year included Water Fund drawdowns and Sewer Fund drawdowns of multiple state revolving loans. Water Fund drawdowns consisted of $704,156 on the 2010 Drinking Water Revolving Fund loan 7307-01. Sewer Fund drawdowns totaled $4,623,320; consisting of $3,435,655 on the 2010 Clean Water Revolving Fund loan 5408-01, $72,431 on the 2011 Clean Water Revolving Fund loan 5408-02, $985,409 on the 2011 Clean Water Revolving Fund loan 5408-03, and $129,825 on the 2011 Strategic Water Quality Initiatives Fund loan 3018-01.

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

As previously discussed, the General Fund reported a fund deficit of $3.4 million for the year ended June 30, 2012. The City's adopted budget for the 2013 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 2012 and beyond. The city will continue to use one-time items such as sale of assets and any other items to minimize the deficit while the structural operating deficit is addressed.

Fiscal year 2013 property tax revenue is based on December 31, 2012 taxable values. Management continues to expect significant decreases in future years property tax revenue due to the lag effect of economic conditions.

Contacting the City's Management

The financial report is intended to provide our 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 incorporates part of the term of emergency financial manager Michael L. Stampfler (July 1, 2011-September 11, 2011) and the current emergency financial manager. The emergency financial manager serving at the time this letter is written for presentation (Louis H. Schimmel) began serving on September 12, 2011. If you have questions about this report or need additional information, contact the City of Pontiac, Michigan finance director's office, 47450 Woodward Ave., Pontiac, Michigan 48342.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Assets				
Cash and investments	$ 12,099,909	$ 4,297,511	$ 16,397,420	$ 2,412,994
Receivables, net	11,647,966	8,738,491	20,386,457	18,160
Internal balances	(8,000,000)	8,000,000	-	-
Other assets	2,100,864	-	2,100,864	-
Restricted assets	2,497,574	1,712,756	4,210,330	1,039,017
Capital assets not being depreciated	53,742,302	22,158,531	75,900,833	-
Capital assets being depreciated, net	54,057,486	44,532,764	98,590,250	11,513,723
Total assets	128,146,101	89,440,053	217,586,154	14,983,894
Liabilities				
Accounts payable and accrued liabilities	14,164,323	2,461,121	16,625,444	844,912
Long-term liabilities:				
Due within one year	2,931,691	1,065,000	3,996,691	3,029,361
Due in more than one year	18,255,913	14,645,464	32,901,377	44,744,806
Other noncurrent liabilities:				
Net other postemployment benefit obligation	32,731,858	3,296,803	36,028,661	-
Net pension obligation	1,730,490	-	1,730,490	-
Total liabilities	69,814,275	21,468,388	91,282,663	48,619,079
Net assets				
Invested in capital assets, net of related debt	106,022,744	50,980,831	157,003,575	5,953,948
Restricted for:				
Streets and highways	1,437,216	-	1,437,216	-
Debt service	-	-	-	1,039,017
Capital projects	398,857	-	398,857	-
Sanitation	2,178,415	-	2,178,415	-
Drains	681,777	-	681,777	-
Senior activities	1,206,079	-	1,206,079	-
Grants	479,478	-	479,478	
Cable television	1,119,389	-	1,119,389	
Water and sewer bond reserves	-	1,712,756	1,712,756	-
Revolving loans	-	-	-	894,591
Unrestricted	(55,192,129)	15,278,078	(39,914,051)	(41,522,741)
Total net assets (deficit)	$ 58,331,826	$ 67,971,665	$ 126,303,491	$ (33,635,185)

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

CITY OF PONTIAC, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government					
Governmental activities:					
General government	$ 26,886,395	$ 2,937,903	$ 4,854,070	$ -	$ (19,094,422)
Public safety	19,243,207	3,804,006	1,256,079	-	(14,183,122)
Public works	2,983,478	1,397,758	4,552,888	-	2,967,168
Community development	8,896,024	67,862	7,453,376	-	(1,374,786)
Community and human services	758,042	-	526,917	-	(231,125)
Interest on long-term debt	988,547	-	-	-	(988,547)
Total governmental activities	59,755,693	8,207,529	18,643,330	-	(32,904,834)
Business-type activities:					
Water fund	11,766,610	12,425,529	25,992	-	684,911
Sewer fund	8,989,117	9,840,952	1,181	577,858	1,430,874
Parking fund	1,354,507	443,367	63,665	-	(847,475)
Golf course fund	45,831	-	12,659	-	(33,172)
Total business-type activities	22,156,065	22,709,848	103,497	577,858	1,235,138
Total primary government	$ 81,911,758	$ 30,917,377	$ 18,746,827	$ 577,858	$ (31,669,696)
Component units					
Tax Increment Financing Authority	$ 4,233,437	$ 38,000	$ -	$ -	$ (4,195,437)
Downtown Development Authority	60,688	-	-	-	(60,688)
Economic Development Authority	178,788	-	-	-	(178,788)
Brownfield Redevelopment Authority	295,406	-	-	-	(295,406)
Total component units	$ 4,768,319	$ 38,000	$ -	$ -	$ (4,730,319)

continued...

Statement of Activities
For the Year Ended June 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Changes in net assets				
Net (expense) revenue	$ (32,904,834)	$ 1,235,138	$ (31,669,696)	$ (4,730,319)
General revenues				
Property taxes	13,532,718	-	13,532,718	2,372,612
Income taxes	9,724,580	-	9,724,580	-
State-shared revenue (unrestricted)	8,427,715	-	8,427,715	-
Unrestricted investment earnings	2,956	458	3,414	161,196
Cable franchise fees	532,774	-	532,774	-
Other general revenues	-	-	-	154,610
Contributions from primary government	-	-	-	8,185,223
Transfers	(1,602,144)	1,602,144	-	-
Total general revenues and transfers	30,618,599	1,602,602	32,221,201	10,873,641
Special item				
Troubled debt restructuring	9,508,303	500,000	10,008,303	1,047,710
Change in net assets	7,222,068	3,337,740	10,559,808	7,191,032
Net assets (deficit), beginning of year	51,109,758	64,633,925	115,743,683	(40,826,217)
Net assets (deficit), end of year	$ 58,331,826	$ 67,971,665	$ 126,303,491	$ (33,635,185)

concluded

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

FUND FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Balance Sheet

Governmental Funds
June 30, 2012

	General	Nonmajor Governmental Funds	Totals
Assets			
Cash and investments	$ 1,757,803	$ 5,655,874	$ 7,413,677
Accounts receivable	2,396,365	100,770	2,497,135
Taxes receivable	2,410,349	12,720	2,423,069
Due from other governments	3,711,135	2,295,496	6,006,631
Due from other funds	748,143	542,218	1,290,361
Inventory	-	19,382	19,382
Prepaids	1,322,523	45,261	1,367,784
Restricted cash and cash equivalents	-	2,497,574	2,497,574
Total assets	$ 12,346,318	$ 11,169,295	$ 23,515,613
Liabilities			
Accounts payable	$ 3,450,971	$ 1,497,758	$ 4,948,729
Accrued wages	42,295	42,777	85,072
Due to other governments	2,482,216	531,087	3,013,303
Due to other funds	8,000,000	1,290,001	9,290,001
Deposits payable	609,626	10,078	619,704
Deferred revenue	1,186,804	1,099,959	2,286,763
Total liabilities	15,771,912	4,471,660	20,243,572
Fund balances			
Nonspendable	1,322,523	64,643	1,387,166
Restricted	-	7,501,211	7,501,211
Unassigned (deficit)	(4,748,117)	(868,219)	(5,616,336)
Total fund balances	(3,425,594)	6,697,635	3,272,041
Total liabilities and fund balances	$ 12,346,318	$ 11,169,295	$ 23,515,613

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

Reconciliation

Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	$ 3,272,041
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 therefore are not reported in the funds.	
Capital assets not being depreciated	53,742,302
Capital assets being depreciated	149,711,938
Accumulated depreciation	(97,979,633)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred revenues in the governmental funds and, therefore, are not included in fund balance.	2,286,763
Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,296,168
Certain liabilities, such as bonds payable, property tax settlements and landfill closure and postclosure costs, are not due and payable in the current period, and therefore are not recorded in the funds.	
Bonds payable	(15,951,143)
Tax settlement agreements	(906,873)
Landfill closure and postclosure costs	(2,217,477)
Compensated absences, separation and longevity payable	(335,067)
Net other postemployment benefit obligation	(32,731,858)
Net pension obligation	(1,730,490)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds	(124,845)
Net assets of governmental activities	$ 58,331,826

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

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General	Other Governmental Funds	Totals
Revenues			
Property taxes and special assessments	$ 9,127,921	$ 4,409,622	$ 13,537,543
Income taxes	9,705,679	-	9,705,679
Federal revenue	936,428	6,831,373	7,767,801
State revenue	8,498,184	5,318,241	13,816,425
Charges for services	7,340,134	954,054	8,294,188
Fines and forfeitures	-	1,531,753	1,531,753
Investment income	-	2,956	2,956
Contribution from component unit	-	1,086,457	1,086,457
Other	2,567,898	459,287	3,027,185
Cable revenue	532,774	-	532,774
Total revenues	38,709,018	20,593,743	59,302,761
Expenditures			
Current:			
General government	4,708,821	42,932	4,751,753
District court	-	4,109,474	4,109,474
Public safety	23,328,801	150,074	23,478,875
Public works	1,660,882	8,029,435	9,690,317
Community development	2,095,647	6,800,377	8,896,024
Community and human services	-	522,460	522,460
General and special programs	6,003,953	-	6,003,953
Debt service:			
Principal	1,340,000	3,657,611	4,997,611
Interest and other fiscal charges	819,963	141,833	961,796
Capital outlay	-	3,517,747	3,517,747
Total expenditures	39,958,067	26,971,943	66,930,010
Revenue under expenditures	(1,249,049)	(6,378,200)	(7,627,249)
Other financing sources (uses)			
Transfers in	210,345	4,321,719	4,532,064
Transfers out	(2,941,622)	(4,098,448)	(7,040,070)
Total other financing sources (uses)	(2,731,277)	223,271	(2,508,006)
Net changes in fund balances	(3,980,326)	(6,154,929)	(10,135,255)
Fund balances, beginning of year	554,732	12,852,564	13,407,296
Fund balances (deficit), end of year	$ (3,425,594)	$ 6,697,635	$ 3,272,041

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

Reconciliation
Net Changes in Fund Balances
to Changes in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net changes in fund balances - total governmental funds	$ (10,135,255)
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	23,848,999
Depreciation expense	(5,140,968)
Loss on disposal of capital assets	(1,353,103)
Transfer of capital assets to component unit	(5,702,333)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment of reduces long-term liabilities in the statement of net assets.	
Principal payments on long-term liabilities	4,997,611
Troubled debt restructuring	9,508,303
Payments received on long-term leases receivable are reported as revenue in governmental funds, but reduce noncurrent assets in the statement of activities.	(315,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(700,832)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on long-term liabilities	39,980
Amortization of debt-related costs	66,794
Change in compensated absences	2,026,753
Change in net other postemployment benefit obligation	(8,999,383)
Change in net pension obligation	(906,324)
Change in the accrual for tax settlement agreement	(10,596)
Change in the accrual for landfill closure and postclosure costs	282,257
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The increase (decrease) in the net assets of the internal service funds is reported with governmental activities.	(284,835)
Change in net assets of governmental activities	$ 7,222,068

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

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Statement of Fund Net Assets
Proprietary Funds
June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Nonmajor Golf Course
Assets				
Current assets:				
Cash and cash equivalents	$ 635,558	$ 1,346,243	$ 2,276,353	$ 39,357
Accounts receivable	4,829,269	3,894,557	4,665	10,000
Due from other funds	5,800,000	2,200,000	-	-
Inventory	-	-	-	-
Prepaids	-	-	-	-
Total current assets	11,264,827	7,440,800	2,281,018	49,357
Noncurrent assets				
Restricted cash and cash equivalents	887,323	825,433	-	-
Capital assets not being depreciated	2,907,711	15,350,606	3,166,454	733,760
Capital assets being depreciated, net	15,489,652	17,378,479	10,111,783	1,552,850
Total noncurrent assets	19,284,686	33,554,518	13,278,237	2,286,610
Total assets	30,549,513	40,995,318	15,559,255	2,335,967
Liabilities				
Current liabilities:				
Accounts payable	1,146,815	1,142,618	18,523	-
Accrued liabilities	-	-	-	-
Accrued wages	-	-	11,428	-
Interest payable	9,204	58,385	-	-
Due to other governments	-	-	28,383	-
Due to other fund	-	-	-	-
Deposits payable	478	-	15,287	30,000
Long-term debt - current portion	415,000	650,000	-	-
Total current liabilities	1,571,497	1,851,003	73,621	30,000
Noncurrent liabilities:				
Net other postemployment benefit obligatior	1,762,650	1,534,153	-	-
Long-term debt - net of current portion	2,750,889	11,894,575	-	-
Total noncurrent liabilities	4,513,539	13,428,728	-	-
Total liabilities	6,085,036	15,279,731	73,621	30,000
Net assets				
Invested in capital assets, net of related debt	15,231,474	20,184,510	13,278,237	2,286,610
Restricted	887,323	825,433	-	-
Unrestricted	8,345,680	4,705,644	2,207,397	19,357
Total net assets	$ 24,464,477	$ 25,715,587	$ 15,485,634	$ 2,305,967

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

	Governmental Activities
Total	Internal Service Funds
$ 4,297,511	$ 4,686,233
8,738,491	721,131
8,000,000	-
-	154,127
-	559,571
21,036,002	6,121,062
1,712,756	-
22,158,531	-
44,532,764	2,325,181
68,404,051	2,325,181
89,440,053	8,446,243
2,307,956	237,172
-	5,026,325
11,428	6,427
67,589	102,747
28,383	-
-	360
45,765	-
1,065,000	404,387
3,526,121	5,777,418
3,296,803	-
14,645,464	1,372,657
17,942,267	1,372,657
21,468,388	7,150,075
50,980,831	548,137
1,712,756	748,031
15,278,078	-
$ 67,971,665	$ 1,296,168

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Net Assets

Proprietary Funds
For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Nonmajor Golf Course
Operating revenues				
Charges for services	$ 12,425,529	$ 9,840,952	$ 443,367	$ -
Other operating revenue	25,992	1,181	63,665	12,659
Total operating revenues	12,451,521	9,842,133	507,032	12,659
Operating expenses				
Purchased water	4,103,879	-	-	-
Insurance	-	-	-	-
Operating and maintenance costs	5,663,973	6,313,941	695,244	45,831
Administration	839,331	758,070	122,909	-
Workers' compensation expense - net of change in liability	-	-	-	-
Depreciation	1,014,491	1,542,123	536,354	-
Total operating expenses	11,621,674	8,614,134	1,354,507	45,831
Operating income (loss)	829,847	1,227,999	(847,475)	(33,172)
Nonoperating revenues (expenses)				
Interest revenue	218	240	-	-
Interest expense	(144,936)	(374,983)	-	-
Total nonoperating revenues (expenses)	(144,718)	(374,743)	-	-
Income (loss) before contributions and transfers	685,129	853,256	(847,475)	(33,172)
Capital contributions from federal grants	-	577,858	-	-
Transfers in	-	-	1,801,583	19,948
Transfers out	(132,508)	(86,879)	-	-
Special item				
Troubled debt restructuring	-	-	500,000	-
Change in net assets	552,621	1,344,235	1,454,108	(13,224)
Net assets, beginning of year	23,911,856	24,371,352	14,031,526	2,319,191
Net assets, end of year	$ 24,464,477	$ 25,715,587	$ 15,485,634	$ 2,305,967

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

	Governmental Activities
Total	Internal Service Funds
$ 22,709,848	$ 21,395,465
103,497	-
22,813,345	21,395,465
4,103,879	-
-	18,730,066
12,718,989	2,622,740
1,720,310	536,944
-	(54,549)
3,092,968	617,435
21,590,315	22,452,636
1,223,030	(1,057,171)
458	-
(519,919)	(133,526)
(519,461)	(133,526)
657,738	(1,190,697)
577,858	-
1,821,531	905,862
(219,387)	-
500,000	-
3,337,740	(284,835)
64,633,925	1,581,003
$ 67,971,665	$ 1,296,168

CITY OF PONTIAC, MICHIGAN

Statement of Cash Flows

Proprietary Fund
For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Nonmajor Golf Course
Cash flows from operating activities				
Cash received from customers	$ 6,417,273	$ 7,390,388	$ 531,462	$ 28,639
Cash payments to suppliers	(9,599,052)	(7,414,441)	(489,761)	(34,158)
Cash payments to employees	(907,287)	(849,661)	(345,985)	(14,674)
Net cash used for operating activities	(4,089,066)	(873,714)	(304,284)	(20,193)
Cash flows from noncapital financing activities				
Transfers in from other funds	-	-	1,801,583	19,948
Repayments of loans made to other funds	-	-	-	-
Transfers to other funds	(132,508)	(86,879)	-	-
Net cash provided by (used for) noncapital financing activities	(132,508)	(86,879)	1,801,583	19,948
Cash flows from capital and related financing activities				
Issuance of debt	704,156	4,623,320	-	-
Proceeds from sale of capital assets	-	-	-	-
Receipt of capital grants	-	577,858	-	-
Purchase of capital assets	(882,458)	(5,513,478)	-	-
Principal paid on bonds and capital leases	(400,000)	(605,000)	-	-
Interest paid on bonds and capital leases	(137,710)	(346,989)	-	-
Net cash used for capital and related financing activities	(716,012)	(1,264,289)	-	-
Cash flows from investing activities				
Interest and dividends received	218	240	-	-
Net increase (decrease) in cash and cash equivalents	(4,937,368)	(2,224,642)	1,497,299	(245)
Cash and cash equivalents, beginning of year	6,460,249	4,396,318	779,054	39,602
Cash and cash equivalents, end of year	$ 1,522,881	$ 2,171,676	$ 2,276,353	$ 39,357
Reconciliation to statement of net assets				
Cash and investments	$ 635,558	$ 1,346,243	$ 2,276,353	$ 39,357
Restricted cash and cash equivalents	887,323	825,433	-	-
	$ 1,522,881	$ 2,171,676	$ 2,276,353	$ 39,357

	Governmental Activities
Total	Internal Service Funds
$ 14,367,762	$ 21,590,522
(17,537,412)	(21,440,608)
(2,117,607)	(2,526,470)
(5,287,257)	(2,376,556)
1,821,531	905,862
-	5,456,876
(219,387)	-
1,602,144	6,362,738
5,327,476	-
-	180,147
577,858	-
(6,395,936)	-
(1,005,000)	(1,174,755)
(484,699)	(30,779)
(1,980,301)	(1,025,387)
458	-
(5,664,956)	2,960,795
11,675,223	1,725,438
$ 6,010,267	$ 4,686,233
$ 4,297,511	$ 4,686,233
1,712,756	-
$ 6,010,267	$ 4,686,233

continued...

Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Parking	Nonmajor Golf Course
Reconciliation of operating income (loss) to net cash used for operating activities				
Operating income (loss)	$ 829,847	$ 1,227,999	$ (847,475)	$ (33,172)
Adjustments to reconcile operating income (loss) to net cash used for operating activities				
Depreciation expense	1,014,491	1,542,123	536,354	-
Change in:				
Accounts receivable	(234,248)	(283,901)	24,430	15,980
Due from other funds	(5,800,000)	(2,167,844)	-	-
Inventories	-	-	-	-
Prepaids	-	-	-	-
Accounts payable	(157,043)	(1,368,202)	7,465	(3,001)
Accrued liabilities	(148,446)	(192,330)	(63,409)	-
Accrued payroll	-	-	11,428	-
Due to other governments	-	-	28,383	-
Due to other funds	-	-	-	-
Deposits payable	294	-	(1,460)	-
Other postemployment benefits	406,039	368,441	-	-
Total adjustments	(4,918,913)	(2,101,713)	543,191	12,979
Net cash used for operating activities	$ (4,089,066)	$ (873,714)	$ (304,284)	$ (20,193)

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

	Governmental Activities
Total	Internal Service Funds
$ 1,177,199	$ (1,057,171)
3,092,968	617,435
(477,739)	(46,645)
(7,967,844)	-
-	(17,937)
-	105,349
(1,520,781)	(992,326)
(404,185)	(992,048)
11,428	6,427
28,383	-
-	360
(1,166)	-
774,480	-
(6,464,456)	(1,319,385)
$ (5,287,257)	$ (2,376,556)

concluded

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Assets
Fiduciary Funds

	December 31, 2011	June 30, 2012
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 62,196	$ 1,323,264
Investments at fair value:		
Money market and mutual funds	28,863,159	-
U.S. government agency notes and debentures	9,414,159	-
High-yield bonds	29,661,352	-
Corporate and other bonds	73,228,837	-
Equities	391,447,125	-
Private equities	14,616,291	-
Real estate	8,637,839	-
U.S. government mortgage-backed securities	39,800,197	-
Commercial mortgage pools	5,041,368	-
Asset-backed securities	6,782,998	-
Other fixed income	33,475,884	-
Accrued interest and dividends receivable	2,094,171	-
Accounts receivable:		
Due from the City of Pontiac	301,685	
Due from City of Pontiac Police and Fire Retiree VEBA	135,318	-
Due from General Employees' Retirement System VEBA	21,420	-
Due from City of Pontiac General Employees' Retirement System	743	-
Other receivables	-	587,599
Total assets	643,584,742	$ 1,910,863
Liabilities		
Due to City of Pontiac	1,064,647	$ -
Due to General Employees' Retirement System	21,420	-
Due to City of Pontiac Police and Fire Retirement System	120,186	-
Accounts payable	1,049,663	309,011
Accrued liabilities	-	480,788
Due to other governments	-	1,027,491
Deposits	-	93,573
Total liabilities	2,255,916	$ 1,910,863
Net assets held in trust for		
Pension benefits	613,752,817	
Other postemployment benefits	27,576,009	
Total net assets	$ 641,328,826	

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

Statement of Changes in Fiduciary Net Assets
Pension and Other Postemployment Benefit Trust Funds
For the Year Ended December 31, 2011

Additions	
Investment income:	
Interest and dividend income	$ 13,997,274
Net decrease in fair value	(15,574,959)
Less investment advisor fees	(3,639,823)
Net investment loss	(5,217,508)
Securities lending income:	
Interest and fees	332,008
Less borrow rebates and bank fees	(131,871)
Net securities lending income	200,137
Contributions:	
Employer	8,439,824
Employees	845,496
Total contributions	9,285,320
Miscellaneous and litigation revenue	122,978
Total additions	4,390,927
Deductions	
Retirees' pension benefits and retirement incentives	39,089,035
Retiree health benefit payments	11,567,876
Member refunds and withdrawals	711,290
Other expenses	827,724
Charges from the City - administrative expenses	409,296
Total deductions	52,605,221
Change in net assets	(48,214,294)
Net assets, beginning of year	689,543,120
Net assets, end of year	$ 641,328,826

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

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Assets
Component Units
June 30, 2012

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets					
Cash and investments	$ 931,554	$ 283	$ 1,280,340	$ 200,817	$ 2,412,994
Receivables, net	12,847	5,313	-	-	18,160
Interfunds	173,698	(173,698)	-	-	-
Restricted assets	1,039,017	-	-	-	1,039,017
Capital assets being depreciated - net	5,559,775	-	5,953,948	-	11,513,723
Total assets	7,716,891	(168,102)	7,234,288	200,817	14,983,894
Liabilities					
Accounts payable	639,172	4,598	325	200,817	844,912
Long-term liabilities:					
Due within one year	3,029,361	-	-	-	3,029,361
Due in more than one year	44,744,806	-	-	-	44,744,806
Total liabilities	48,413,339	4,598	325	200,817	48,619,079
Net assets					
Invested in capital assets, net of related debt	-	-	5,953,948	-	5,953,948
Restricted:					
Debt service	1,039,017	-	-	-	1,039,017
Revolving loans	-	-	894,591	-	894,591
Unrestricted (deficit)	(41,735,465)	(172,700)	385,424	-	(41,522,741)
Total net assets (deficit)	$ (40,696,448)	$ (172,700)	$ 7,233,963	$ -	$ (33,635,185)

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

Combining Statement of Activities

Component Units
For the Year Ended June 30, 2012

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Expenses					
Commercial and industrial development	$ 1,625,073	$ 60,688	$ 178,788	$ 295,406	$ 2,159,955
Interest on long-term debt	2,608,364	-	-	-	2,608,364
Total expenses	4,233,437	60,688	178,788	295,406	4,768,319
Program revenues					
Charges for services	38,000	-	-	-	38,000
Net (expense) revenue	(4,195,437)	(60,688)	(178,788)	(295,406)	(4,730,319)
General revenues					
Property taxes	2,031,050	294,391	-	47,171	2,372,612
Unrestricted investment earnings	155,903	-	5,293	-	161,196
Other general revenues	89,373	63,512	1,725	-	154,610
Contributions from primary government	8,135,784	-	-	49,439	8,185,223
Total general revenues	10,412,110	357,903	7,018	96,610	10,873,641
Special item					
Troubled debt restructuring	1,047,710	-	-	-	1,047,710
Change in net assets	7,264,383	297,215	(171,770)	(198,796)	7,191,032
Net assets, beginning of year	(47,960,831)	(469,915)	7,405,733	198,796	(40,826,217)
Net assets, end of year	$ (40,696,448)	$ (172,700)	$ 7,233,963	$ -	$ (33,635,185)

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City of Pontiac, Michigan was incorporated on March 15, 1861 and operated under a Council-Strong mayor form of government until March 19, 2009 when an Emergency Financial Manager was appointed. A preliminary review of the City's financial condition was performed by the State of Michigan on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and ultimately appointed an Emergency Financial Manager (EFM) to run the City on March 19, 2009. This EFM served until June 30, 2010. A second EFM was appointed and served from July 4, 2010 to September 8, 2011. A third EFM was appointed on September 12, 2011 and is currently still serving the City under the provisions of Public Act 72 of 1990. Major operations of the City include police and fire protection, parks, recreation, public works, and general administrative services. In addition, the City owns and operates a water distribution 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.

Discretely Presented Component Units

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 City Council. There can be not less than 8 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.

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.

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

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

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 financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, 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 accounted for and reported 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 special revenue, debt service, capital project, internal service, and fiduciary activities:

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

Debt service funds. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

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

Internal service funds. Internal service funds account for 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.

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' Retirement System VEBA, 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.

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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. 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.

Property Tax Revenue

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

The City of Pontiac 2011 tax is levied and collectible on July 1, 2011 and is recognized as revenue in the year ended June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the City of Pontiac totaled approximately $892 million (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, .5000 mills for senior activities, and .0920 mills for court judgments. This resulted in $8.9 million for operating, $2.23 million for refuse collection and disposal, $1.11 million for capital improvement, $0.40 million for senior activities, and $0.08 million for the court judgments. These amounts are recognized in the respective general fund, special revenue fund, and capital projects fund financial statements as tax revenue.

Assets, Liabilities and Equity

Deposits and Investments

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

Receivables and Payables

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

Inventory and Prepaid items

Inventories 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.

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

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

Compensated Absences

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

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.

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.

Fund Equity

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

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

Use of Estimates

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Construction Code Fees

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

3. FUND DEFICITS

The City has accumulated unassigned fund deficits in the following individual funds:

General fund	$ 4,748,117
Nonmajor governmental funds:	
Community Development Block Grant	201,248
Energy Efficiency and Conservation	93,330
ML King construction	271,269
Clinton River Linear Park Trail	262,099
Component units -	
Downtown Development Authority	178,013

General Fund - A deficit elimination plan is being filed with the Local Audit and Finance Division of the State of Michigan (see Note 21 – Management's Plans).

Community Development Block Grant - The deficit within the Community Development Block Grant Fund (CDBG) is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. Deferred revenue in this fund at June 30, 2012 was $393,964. The recognition for the $393,964 during the year ending June 30, 2013 will eliminate the year end deficit of $201,248.

Energy Efficiency and Conservation Fund - The deficit within the Energy Efficiency and Conservation Block Grant Fund (EECBG) is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. The City's deficit and deferred revenue at June 30, 2012 was $93,330.

ML King Construction Fund - The deficit within the ML King Construction Fund (MLK) is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. The City's deficit and deferred revenue at June 30, 2012 was $271,269.

Clinton River Linear Park Trail Fund - The deficit within the Clinton River Linear Park Trail Fund is due to a timing issue. The program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within the 60 days after year end, the City's revenue recognition policy requires the revenue to be deferred to the next year. The City's deferred revenue at June 30, 2012 totaled $295,997. The recognition for the $295,997 during the year ending June 30, 2013 will eliminate the June 30, 2012 deficit of $262,098.

Component Unit Deficit - The Downtown Development Authority (DDA) has a fund deficit of $178,013 as of June 30, 2012. During the current year, the DDA decreased the deficit by approximately $303,000. 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 emergency financial manager passed the 2011/2012 budget eliminating all operating costs, budgeting only for the property tax capture. Effective June 30, 2012, the City has dissolved the City's DDA. The dissolution of the DDA eliminates any property tax capture relating to the DDA starting in fiscal year 2013. The City will sell the remaining assets of the DDA to eliminate the existing fund deficit.

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

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

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

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, 2011 because these funds are maintained on a calendar year basis.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned.

City - State law does not require and the City does not have a deposit policy for custodial credit risk. At year end, the City had $21,979,772 of bank deposits (certificates of deposit, checking, and savings accounts.) $2,906,359 of the City's bank balance of $22,026,725 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Police and Fire Retirement System - The 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.

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

City - The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2012, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

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

City - The City's investment policy 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:

Investment	Fair Value	Weighted Average Maturity
Money market accounts	$ 6,672,763	n/a

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

Investment	Fair Value	Weighted Average Maturity
Asset-backed securities	$ 67,197	2.46 years
Corporate and other bonds	18,521,590	5.60 years
Corporate and other bonds	16,672,568	1.89 years
U.S. governmental investments:		
Government agencies	1,377,188	4.01 years
Government bonds	502,832	0.13 years
Government mortgage-backed securities	13,778,440	1.25 years
Nongovernment-backed CMOs	5,955	0.01 years
Other fixed-income pool	24,615,695	Unavailable

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

Investment	Fair Value	Weighted Average Maturity
Asset-backed securities	$ 6,715,801	1.81 years
Commercial mortgage-backed securities	4,688,185	2.76 years
Corporate and other bonds	63,016,065	3.87 years
U.S. governmental investments:		
Government bonds	5,508,679	11.75 years
Government issued commercial mortgage backed	993,855	3.70 years
Government mortgage-backed securities	27,425,481	15.25 years
Other government agencies	816,821	5.82 years
Nongovernment-backed CMOs	239,819	0.89 years
Nongovernment-backed CMOs	634,978	Unavailable
Municipal/Provincial bonds	1,144,478	6.12 years
Municipal/Provincial bonds	64,160	Unavailable
Short-term investment funds	15,198,170	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
Corporate:		
Asset-backed	$ 320,748	9.84 years
Bonds	2,370,661	5.82 years
Collateralized mortgage obligations	704,184	31.44 years
Foreign bonds	247,404	6.35 years
U.S. government:		
Agency	65,354	7.78 years
Mortgage-backed	3,268,826	28.47 years
Treasuries, notes and bonds	832,607	0.96 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	$ 15,102	7.3 years

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 the City's investments are as follows:

Investment	Fair Value	Rating	Rating Organization
Money market accounts	$ 6,672,763	AAAm	S&P

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

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	$ 67,197	B	S&P
Corporate bonds	1,682,740	AA	S&P
Corporate bonds	13,006,952	A	S&P
Corporate bonds	3,831,897	Bbb	S&P
Corporate bonds	16,672,569	Unrated	n/a
Other fixed-income pool	24,615,695	Unrated	n/a
Short-term investment funds	7,118,906	A1+	S&P
Government agencies	1,377,188	AA	S&P

Notes to Financial Statements

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 highgrade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	$ 4,306,559	Aaa	S&P
Asset-backed securities	576,665	Aa	S&P
Asset-backed securities	902,276	A	S&P
Asset-backed securities	930,301	Unrated	n/a
Commercial mortgage-backed securities	3,431,019	Aaa	S&P
Commercial mortgage-backed securities	1,257,166	Unrated	n/a
Corporate bonds	910,575	Aaa	S&P
Corporate bonds	6,488,245	Aa	S&P
Corporate bonds	14,720,377	A	S&P
Corporate bonds	15,372,965	Baa	S&P
Corporate bonds	1,086,888	Ba	S&P
Corporate bonds	16,828,784	B	S&P
Corporate bonds	6,615,040	Caa	S&P
Corporate bonds	993,191	Unrated	n/a
Governmental agencies	816,821	A	S&P
U.S. governmental agencies	2,397,579	Aaa	S&P
U.S. governmental agency mortgage-backed security	85,589	Unrated	n/a
Nongovernment-backed CMOs	31,451	A	S&P
Nongovernment-backed CMOs	843,346	Unrated	n/a
Municipal/Provincial bonds	64,160	Aaa	S&P
Municipal/Provincial bonds	704,822	Aa	S&P
Municipal/Provincial bonds	439,657	Unrated	n/a
Short-term investment funds	15,198,170	Unrated	n/a

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

Investment	Fair Value	Rating	Rating Organization
Corporate:			
Asset-backed	$ 254,506	AAA	S&P
Asset-backed	30,352	A	S&P
Asset-backed	35,889	Not rated	n/a
Bonds	52,184	AA	S&P
Bonds	740,614	A	S&P
Bonds	1,499,424	BBB	S&P
Bonds	78,440	BB	S&P
Collateralized mortgage obligations	78,773	AAA	S&P
Collateralized mortgage obligations	254,830	A	S&P
Collateralized mortgage obligations	75,204	BBB	S&P
Collateralized mortgage obligations	295,377	Not rated	n/a
Foreign bonds	74,869	A	S&P
Foreign bonds	172,536	BBB	S&P
U.S government:			
Agency	65,354	A	S&P
Mortgage-backed	3,268,826	Not rated	n/a
Treasuries, notes and bonds	832,607	Not rated	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	Rating	Rating Organization
Mutual fund - bond	$ 544	AAA	Moody's
Mutual fund - bond	800	Aa	Moody's
Mutual fund - bond	1,691	A	Moody's
Mutual fund - bond	1,510	Baa	Moody's
Mutual fund - bond	10,556	n/a *	n/a *

* Explicitly guaranteed by the U.S. government therefore credit risk is n/a

Concentration of Credit Risk

City - The City places no limit on the amount it may invest in any one issuer. At year end, there were no individual investments with a fair value that represent 5% or more of the City's investments.

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

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

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

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

Foreign Currency Risk

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

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

Police and Fire Retirement System - The PFRS limits total assets in international equities and fixed income to 14 percent of the total pension system's market value. 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 9 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 places no limit on the amount of international stock funds. The following securities contained in the international stock fund are subject to foreign currency risk:

Security	Fair Value
European euro	$ 1,793,809
Japanese yen	589,574
British pound	761,010
Latin American peso	255,064
Other	531,034

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, 2011, 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's board authorized the termination of participation in the securities lending program on December 1, 2011. As of December 31, 2011, the PFRS did not have any securities on loan.

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, 2011, there was no currency received as collateral.

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's board authorized the termination of participation in the securities lending program on November 30, 2011. As of December 30, 2011, the GER did not have any securities on loan.

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.

5. 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:

	Governmental Activities	Business-type Activities
Taxes	$ 5,615,313	$ -
Special assessments	-	57,865
Accounts	3,218,266	9,453,676
Intergovernmental	6,006,631	-
Less allowance for doubtful accounts	(3,192,244)	(773,050)
Net receivables	$ 11,647,966	$ 8,738,491

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 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:

	Unavailable	Unearned	Total
Governmental funds			
Delinquent property taxes and payments in lieu of taxes	$ 43,818	$ -	$ 43,818
Income tax receivables	1,018,901	-	1,018,901
Grant receivables	758,560	-	758,560
Other receivables	465,484	-	465,484
Total	$ 2,286,763	$ -	$ 2,286,763

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Other governmental				
Capital assets, not being depreciated:				
Land	$ 21,022,316	$ 205,080	$ -	$ 21,227,396
Construction in progress	15,969,481	22,247,758	(5,702,333)	32,514,906
Total capital assets not being depreciated	36,991,797	22,452,838	(5,702,333)	53,742,302
Capital assets, being depreciated:				
Streets and bridges	63,475,147	699,638	(1,901,720)	62,273,065
Buildings and improvements	46,035,782	184,119	-	46,219,901
Machinery and equipment	14,188,187	266,864	-	14,455,051
Vehicles	11,148,352	-	-	11,148,352
Office furnishings	8,139,605	245,540	-	8,385,145
Land improvements	7,230,424	-	-	7,230,424
Total capital assets being depreciated	150,217,497	1,396,161	(1,901,720)	149,711,938
Less accumulated depreciation for:				
Streets and bridges	(24,490,237)	(3,295,383)	548,617	(27,237,003)
Buildings and improvements	(29,215,368)	(1,060,926)	-	(30,276,294)
Machinery and equipment	(13,947,169)	(142,003)	-	(14,089,172)
Vehicles	(11,148,352)	-	-	(11,148,352)
Office furnishings	(8,021,247)	(51,127)	-	(8,072,374)
Land improvements	(6,564,909)	(591,529)	-	(7,156,438)
Total accumulated depreciation	(93,387,282)	(5,140,968)	548,617	(97,979,633)
Total capital assets being depreciated, net	56,830,215	(3,744,807)	(1,353,103)	51,732,305
Other governmental capital assets, net	$ 93,822,012	$ 18,708,031	$ (7,055,436)	$ 105,474,607

	Beginning Balance	Additions	Disposals	Ending Balance
Internal service funds				
Capital assets, being depreciated:				
Buildings and improvements	$ 52,998	$ -	$ -	$ 52,998
Machinery and equipment	1,707,851	-	-	1,707,851
Vehicles	5,197,149	-	(1,027,383)	4,169,766
Office furnishings	10,618	-	-	10,618
Total capital assets being depreciated	6,968,616	-	(1,027,383)	5,941,233
Less accumulated depreciation for:				
Buildings and improvements	(42,683)	(3,242)	-	(45,925)
Machinery and equipment	(1,357,602)	(89,166)	-	(1,446,768)
Vehicles	(2,435,615)	(524,363)	847,236	(2,112,742)
Office furnishings	(9,953)	(664)	-	(10,617)
Total accumulated depreciation	(3,845,853)	(617,435)	847,236	(3,616,052)
Total capital assets being depreciated, net	3,122,763	(617,435)	(180,147)	2,325,181
Internal service fund capital assets, net	$ 3,122,763	$ (617,435)	$ (180,147)	$ 2,325,181
Governmental activities capital assets, net	$ 96,944,775	$ 18,090,596	$ (7,235,583)	$ 107,799,788

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Water fund				
Capital assets, not being depreciated:				
Land	$ 195,436	$ -	$ -	$ 195,436
Construction in progress	2,232,470	479,805	-	2,712,275
Total capital assets not being depreciated	2,427,906	479,805	-	2,907,711
Capital assets, being depreciated:				
Water systems	22,708,301	374,267	-	23,082,568
Buildings and improvements	2,929,104	-	-	2,929,104
Machinery and equipment	8,474,647	45,175	(47,970)	8,471,852
Vehicles	1,697,324	-	(33,486)	1,663,838
Land improvements	324,392	-	-	324,392
Total capital assets being depreciated	36,133,768	419,442	(81,456)	36,471,754
Less accumulated depreciation for:				
Water systems	(11,202,224)	(506,582)	-	(11,708,806)
Buildings and improvements	(1,717,082)	(50,154)	-	(1,767,236)
Machinery and equipment	(5,173,689)	(428,115)	31,181	(5,570,623)
Vehicles	(1,687,984)	(9,340)	33,486	(1,663,838)
Land improvements	(251,299)	(20,300)	-	(271,599)
Total accumulated depreciation	(20,032,278)	(1,014,491)	64,667	(20,982,102)
Total capital assets being depreciated, net	16,101,490	(595,049)	(16,789)	15,489,652
Water fund capital assets, net	$ 18,529,396	$ (115,244)	$ (16,789)	$ 18,397,363
Sewer fund				
Capital assets, not being depreciated:				
Land	$ 325,964	$ -	$ -	$ 325,964
Construction in progress	10,416,238	4,608,404	-	15,024,642
Total capital assets not being depreciated	10,742,202	4,608,404	-	15,350,606
Capital assets, being depreciated:				
Sewer systems	50,780,224	860,497	-	51,640,721
Buildings and improvements	11,708,563	-	-	11,708,563
Machinery and equipment	6,225,571	44,577	-	6,270,148
Vehicles	2,034,168	-	(143,978)	1,890,190
Land improvements	241,302	-	-	241,302
Total capital assets being depreciated	70,989,828	905,074	(143,978)	71,750,924
Less accumulated depreciation for:				
Sewer systems	(35,976,789)	(1,291,735)	-	(37,268,524)
Buildings and improvements	(9,178,147)	(145,523)	-	(9,323,670)
Machinery and equipment	(5,808,410)	(61,814)	-	(5,870,224)
Vehicles	(1,858,556)	(31,930)	143,978	(1,746,508)
Land improvements	(152,398)	(11,121)	-	(163,519)
Total accumulated depreciation	(52,974,300)	(1,542,123)	143,978	(54,372,445)
Total capital assets being depreciated, net	18,015,528	(637,049)	-	17,378,479
Sewer fund capital assets, net	$ 28,757,730	$ 3,971,355	$ -	$ 32,729,085

	Beginning Balance	Additions	Disposals	Ending Balance
Parking fund				
Capital assets, not being depreciated -				
Land	$ 3,166,454	$ -	$ -	$ 3,166,454
Capital assets, being depreciated:				
Buildings and improvements	33,679,528	-	-	33,679,528
Machinery and equipment	78,976	-	-	78,976
Vehicles	148,363	-	(134,349)	14,014
Land improvements	646,676	-	-	646,676
Traffic signs	57,858	-	-	57,858
Total capital assets being depreciated	34,611,401	-	(134,349)	34,477,052
Less accumulated depreciation for:				
Buildings and improvements	(23,036,389)	(533,579)	-	(23,569,968)
Machinery and equipment	(73,980)	(2,775)	-	(76,755)
Vehicles	(148,361)	-	134,349	(14,012)
Land improvements	(646,676)	-	-	(646,676)
Traffic signs	(57,858)	-	-	(57,858)
Total accumulated depreciation	(23,963,264)	(536,354)	134,349	(24,365,269)
Total capital assets being depreciated, net	10,648,137	(536,354)	-	10,111,783
Parking fund capital assets, net	$ 13,814,591	$ (536,354)	$ -	$ 13,278,237
Golf course fund				
Capital assets, not being depreciated:				
Land	$ 733,760	$ -	$ -	$ 733,760
Capital assets, being depreciated:				
Buildings and improvements	914,982	-	-	914,982
Machinery and equipment	438,748	-	-	438,748
Land improvements	4,526,155	-	-	4,526,155
Total capital assets being depreciated	5,879,885	-	-	5,879,885
Less accumulated depreciation for:				
Buildings and improvements	(631,133)	-	-	(631,133)
Machinery and equipment	(390,905)	-	-	(390,905)
Land improvements	(3,304,997)	-	-	(3,304,997)
Total accumulated depreciation	(4,327,035)	-	-	(4,327,035)
Total capital assets being depreciated, net	1,552,850	-	-	1,552,850
Golf course fund capital assets, net	$ 2,286,610	$ -	$ -	$ 2,286,610
Business-type activities capital assets, net	$ 63,388,327	$ 3,319,757	$ (16,789)	$ 66,691,295

Depreciation expense is not taken on the golf course fund capital assets due to accounting requirements under service concession arrangements.

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - Economic Development Corporation				
Capital assets being depreciated -				
Buildings and improvements	$ 7,004,644	$ -	$ -	$ 7,004,644
Less accumulated depreciation -				
Buildings and improvements	(875,580)	(175,116)	-	(1,050,696)
Net capital assets	$ 6,129,064	$ (175,116)	$ -	$ 5,953,948
Component Unit - Tax Increment Finance Authority				
Capital assets being depreciated -				
Buildings and improvements	$ -	$ 5,702,333	$ -	$ 5,702,333
Less accumulated depreciation -				
Buildings and improvements	-	(142,558)	-	(142,558)
Net capital assets	$ -	$ 5,559,775	$ -	$ 5,559,775
Component unit capital assets, net	$ 6,129,064	$ 5,384,659	$ -	$ 11,513,723

The additions to capital assets in the tax increment finance authority component unit were transferred from governmental activities construction in progress during the fiscal year.

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

Depreciation of governmental activities by function	
General government	$ 1,136,841
Public safety	95,314
Public works	3,908,813
Internal service funds	617,435
Total depreciation expense - governmental activities	$ 5,758,403
Depreciation of business-type activities by function	
Water	$ 1,014,491
Sewer	1,542,123
Parking	536,354
Total depreciation expense - business-type activities	$ 3,092,968

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

	Spent to Date	Remaining Commitment
Governmental activities:		
Lafayette Street construction	$ 70,611	$ 16,728
Martin Luther King road improvements (right-of-way purchase)	1,269,393	5,607
Martin Luther King road improvements (construction phase)	785,307	427,393
Total governmental activities	2,125,311	449,728
Business-type activities:		
Water system improvements	2,681,182	204,692
Sewer system improvements	14,898,593	7,758,755
Total business-type activities	17,579,775	7,963,447
Total primary government	$ 19,705,086	$ 8,413,175

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2012, amounts due to/due from other funds were as follows:

	Due to Other Funds	Due from Other Funds
General fund	$ 8,000,000	$ 748,143
Nonmajor governmental funds	1,290,001	542,218
Water fund	-	5,800,000
Sewer fund	-	2,200,000
	$ 9,290,361	$ 9,290,361

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

For the year ended June 30, 2012, interfund transfers consisted of the following:

	Transfers in	Transfers out
General fund	$ 210,345	$ 2,941,622
Nonmajor governmental funds	4,321,719	4,098,448
Water fund	-	132,508
Sewer fund	-	86,879
Parking fund	1,801,583	-
Nonmajor enterprise funds	19,948	-
Internal service funds	905,862	-
	$ 7,259,457	$ 7,259,457

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

Notes to Financial Statements

8. LONG-TERM DEBT

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

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds:					
$6,505,000 2000 Municipal Golf Course Bonds, due in annual installments of $560,000 to $710,000 through the year 2012; interest at 5.965%	$ 710,000	$ -	$ (710,000)	$ -	$ -
$10,000,000 2002 General Building Authority Bonds, due in annual installments of $125,000 to $315,000 through the year 2012; interest at 4.625% to 4.700%	315,000	-	(315,000)	-	-
$21,490,000 2006 Fiscal Stabilization Bonds, due in annual installments of $1,130,000 to $2,050,000 through the year 2021; interest at 3.7% to 5.0%	16,690,000	-	(1,340,000)	15,350,000	1,405,000
Capital lease obligations:					
Capital improvement - fire department	632,611	-	(632,611)	-	-
Internal service fund	2,951,799	-	(1,174,755)	1,777,044	404,387
Subtotal	21,299,410	-	(4,172,366)	17,127,044	1,809,387
Unamortized bond premium	667,937	-	(66,794)	601,143	-
Other long-term obligations:					
2006 General Motors Corporation property tax reimbursement	10,500,000	-	(10,500,000)	-	-
2011 General Motors and Motors Liquidation Company tax appeal settlement	1,904,580	-	(1,008,303)	896,277	896,277
2012 Crown Enterprise tax appeal settlement	-	10,596	-	10,596	2,649
Compensated absences, separation and longevity accrual	2,361,820	-	(2,026,753)	335,067	223,378
Landfill closure and postclosure costs	2,499,734	-	(282,257)	2,217,477	-
Total governmental activities	$ 39,233,481	$ 10,596	$ (18,056,473)	$ 21,187,604	$ 2,931,691

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Revenue bonds:					
$3,675,000 1995 Water Supply System, due in annual installments of $70,000 to $300,000 through the year 2015; interest at 5.40% to 8.25%	$ 1,110,000	$ -	$ (255,000)	$ 855,000	$ 270,000
$1,375,000 2002 Water Supply System, due in annual installments of $45,000 to $105,000 through the year 2022; interest at 5.0% to 5.8%	905,000	-	(65,000)	840,000	65,000
$1,375,000 2010 Water Supply System - DWRF Project 7307-01, due in annual installments of $80,000 to $130,000 through the year 2031; interest at 2.50%	846,733	704,156	(80,000)	1,470,889	80,000
$5,000,000 2002 Sewage Disposal System, due in annual installments of $165,000 to $385,000 through the year 2022; interest at 54.75% to 5.85%	3,285,000	-	(225,000)	3,060,000	240,000
$9,695,000 2010 Sewage Disposal System - SRF Project 5408-01, due in annual installments of $380,000 to $605,000 through the year 2031; interest at 2.50%	5,241,255	3,435,655	(380,000)	8,296,910	390,000
$495,000 2011 Sewage Disposal System - SRF Project 5408-02, due in annual installments of $20,000 to $30,000 through the year 2032; interest at 2.50%	-	72,431	-	72,431	20,000
$9,695,000 2011 Sewage Disposal System - SRF Project 5408-03, due in annual installments of $360,000 to $580,000 through the year 2032; interest at 2.50%	-	985,409	-	985,409	-
$1,060,000 2011 Sewage Disposal System - SRF Project 3018-01, due in annual installments of $40,000 to $65,000 through the year 2032; interest at 2.50%	-	129,825	-	129,825	-
Subtotal	11,387,988	5,327,476	(1,005,000)	15,710,464	1,065,000
Other long-term obligations:					
2006 General Motors Corporation property tax reimbursement	500,000	-	(500,000)	-	-
Total business-type activities	$ 11,887,988	$ 5,327,476	$ (1,505,000)	$ 15,710,464	$ 1,065,000

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component units					
Revenue bonds:					
* $11,245,000 2002 TIFA Bonds #M0005, due in annual installments of $215,000 to $1,180,000 through the year 2022; interest at 3.000% to 5.625%	$ 3,480,000	$ -	$ (1,170,000)	$ 2,310,000	$ -
$28,675,000 2002 TIFA Bonds #M006, defeased during the year	3,260,000	-	(3,260,000)	-	-
$31,080,000 2007 C TIFA Bonds, due in annual installments of $590,000 to $1,985,000 through the year 2031; interest at 3.50% to 5.00%	28,900,000	-	(590,000)	28,310,000	1,080,000
General obligation bonds:					
$8,160,000 2006 County Building Authority Refunding Bonds, due in annual installments of $50,000 to $2,850,000 through the year 2027; interest at 3.25% to 5.00%	7,810,000	-	(50,000)	7,760,000	385,000
$11,500,000 2006 County Building Authority Bonds, due in annual installments of $350,000 to $900,000 through the year 2026; interest at 5.00% to 5.40%	9,575,000	-	(425,000)	9,150,000	450,000
Subtotal	53,025,000	-	(5,495,000)	47,530,000	1,915,000
Other long-term obligations:					
2011 General Motors and Motors Liquidation Company tax appeal settlement	2,095,420	-	(1,047,710)	1,047,710	1,047,710
2012 Crown Enterprise tax appeal settlement	-	236,706	-	236,706	59,177
Compensated absences	34,419	-	(11,772)	22,647	7,474
Lease payable - City of Pontiac General Building Authority	315,000	-	(315,000)	-	-
Unamortized bond discounts	(1,315,740)	-	252,844	(1,062,896)	-
Total component units	$ 54,154,099	$ 236,706	$ (6,616,638)	$ 47,774,167	$ 3,029,361

***** During the fiscal year, the City made a payment of $935,000 on the 2002 TIFA bonds #M0005, in addition to the regularly scheduled payment.

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

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Component Units Principal	Component Units Interest
2013	$ 1,809,387	$ 861,150	$ 1,065,000	$ 550,659	$ 1,915,000	$ 2,260,070
2014	1,904,872	765,415	1,510,000	500,941	2,010,000	2,155,760
2015	1,986,977	682,998	1,570,000	443,060	2,095,000	2,061,570
2016	2,095,808	577,667	1,177,665	382,204	2,330,000	1,962,900
2017	1,690,000	466,500	895,000	344,093	2,575,000	1,858,490
2018-2022	7,640,000	978,000	5,010,000	1,169,435	15,150,000	7,444,880
2023-2027	-		3,165,889	405,350	15,000,000	3,559,937
2028-2032	-		1,316,910	56,143	6,455,000	733,952
	$ 17,127,044	$ 4,331,730	$ 15,710,464	$ 3,851,885	$ 47,530,000	$ 22,037,559

Compensated absences and separation accruals in governmental activities of $335,067 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 $2,217,477 has no fixed maturity dates; therefore; they have been excluded form 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 are 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 the authority of the Michigan 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 that 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 statement 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, 2012, no commitment debt outstanding has been determined.

Defeased Debt

In fiscal year 2012, the City defeased Tax Increment Finance Authority Development Area #3 Revenue Bonds, Series 2002 with outstanding principal of $3,260,000. The City transferred $3,496,406 ($3,260,000 in principal, $183,438 in interest and $52,968 in redemption and other costs) to an escrow agent until the bonds were called on June 1, 2012.

In prior years, 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 liability for the defeased bonds are not included in these financial statements. As of June 30, 2012, $20,460,000 of bonds outstanding is considered defeased.

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 $19,392,875. During the current year, state-shared revenue was $8,427,715 compared to annual debt requirements of $2,156,063.

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 sewers bonds total $3,876,270 and $16,310,441, respectively. During the current year, net revenue of the water system and sewer system was $1,033,389 and $1,394,264, respectively, compared to annual debt requirements of $546,904 and $953,996, 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 TIFA2 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 former Clinton Valley Center Hospital housing project. The bonds are paid solely from TIFA 2 and TIFA 3 captured taxes. The remaining principal and interest to be paid on the TIFA 2 and TIFA 3 bonds are $32,787,293 and $36,780,266, respectively. During the current year, TIFA 2 and TIFA 3 captured property tax revenue totaled $266,499 and $1,558,598, respectively, compared to annual debt requirements of $2,648,322 and $1,299,956, respectively.

Tax Repayment Agreements / Troubled Debt Restructuring

2006 GM Property Tax Reimbursement Agreement

The City had a property tax refund obligation to General Motors Corporation (GM) as a result of a 1991 settlement related to the assessed valuation of GM property located within the City for the fiscal year 1986 through 1992. The balance of the liability was $11,000,000 of which $10,500,000 was payable from the following governmental funds: General Fund, Sanitation Fund, Chapter 20 Drain Fund, and Capital Improvement Fund. The remaining $500,000 was payable from the Parking Fund. During fiscal year 2012, the City further revised the settlement agreement with GM, which allowed the City to make a one-time payment of $2,000,000 to GM and be forgiven of the remaining $9,000,000. The City paid the $2,000,000 out of the City's Chapter 20 Drain Fund in April 2012.

2011 GM Tax Appeal Settlement

The City had originally entered into an agreement with General Motors and Motors Liquidation Company in fiscal year 2011 to settle a property tax appeal for a total amount due of $4,000,000 to be paid in annual installments of $1,000,000 over a four year period beginning September 30, 2011. According to the agreement the City was responsible for paying a total of $1,904,580 and the Tax Increment Finance Authority was responsible for paying a total of $2,095,420. Due to the financial conditions, the City and Tax Increment Finance Authority did not make the first annual payment due September 30, 2011 of $476,145 and $523,855, respectively. During fiscal year 2012, General Motors and the City restructured the agreement, which allowed the City to make a one-time payment of $2,000,000 to be paid on or before September 28, 2012. The City will pay the $2,000,000, a portion of which the Library is responsible for, from various governmental funds and Tax Increment Finance Authority on a pro-rata basis. The remaining debt balance of $2,000,000 has been forgiven.

9. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Total	Component Units
Cash and investments:				
Landfill closure and postclosure costs	$ 1,405,223	$ -	$ 1,405,223	$ -
Bond reserves	-	1,712,756	1,712,756	1,039,017
Deposits held by State for landfill postclosure care	1,092,351	-	1,092,351	-
Total restricted assets	$ 2,497,574	$ 1,712,756	$ 4,210,330	$ 1,039,017

10. LANDFILL - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and postclosure care costs as an expense in the government-wide statements in each period based on the acres of the entire permitted site used as of each balance sheet date. The $2,217,477 reported as landfill closure and postclosure liability at June 30, 2012 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, 2012. 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, 2012, investments of $2,497,574 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.

11. RISK MANAGEMENT

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

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

The City estimates the liability for 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. These liabilities are recorded in internal service funds. Due to a decrease in the liability as determined by the calculation of the incurred but not reported reserve, a negative amount of incurred claims is reported in workers' compensation. The total decrease in the workers' compensation liability is $916,876. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation	
	2012	2011	2012	2011
Unpaid claims -				
Beginning of year	$ 2,329,930	$ 2,500,000	$ 2,416,876	$ 4,200,000
Incurred claims	1,344,595	279,182	(54,549)	(734,210)
Claim payments	(874,525)	(449,252)	(862,327)	(1,048,914)
Unpaid claims -				
End of year	$ 2,800,000	$ 2,329,930	$ 1,500,000	$ 2,416,876

	Medical and Dental Claims	
	2012	2011
Unpaid claims -		
Beginning of year	$ 1,070,000	$ 927,000
Incurred claims	11,930,318	16,431,088
Claim payments	(12,408,318)	(16,288,088)
Unpaid claims -		
End of year	$ 592,000	$ 1,070,000

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

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

Partial Termination. During 2011, a partial termination of the pension plan for general employees was deemed to have occurred. This resulted from the termination of various employee positions at the City under executive orders issued by the Emergency Manager. The impact of membership composition and the funded status of the pension plans are unknown at this time; however, due to the funded status of the plan, the impact is not anticipated to be significant.

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, 2011 was $0. The annual required contribution was determined as part of actuarial valuation at December 31, 2008, 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, 2010, all assumptions have remained consistent.

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2010	$ -	100.0%	$ -
2011	-	100.0%	-
2012	-	100.0%	-

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered
12/31/10	$ 399,573,669	$ 253,866,554	$ (145,707,115)	157.4%	$ 9,493,229	0%

Reserves - As of December 31, 2011, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	$ 1,796,755
Reserve for retired benefit payments	204,034,249

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Partial Termination. During 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with Oakland County Sheriff for policing services. This resulted from the termination of active employee positions at the City under Executive Orders issued by the Emergency Manager. The actuarial valuation as of December 31, 2011 reflects the transfer of employees from active status to vested inactive status as a result of the partial termination. Likewise, a supplemental actuarial valuation was performed as of March 1, 2012 to reflect the change in status of the fire employees from active members to vested inactive members. As of March 1, 2012, the City contracted with Waterford Township to provide fire services. This valuation indicates that the actuarial accrued liabilities decreased by approximately $2.54 million, resulting in a decrease in unfunded actuarial accrued liabilities from $4.51 million to $1.97 million. Plan membership has decreased from 121 as of December 31, 2010 to 58 as of December 31, 2011 and ultimately to zero as of March 1, 2012.

Closing of Plan. Given that effective March 2012, there are no current active participants, the plan is deemed to be closed. As a result, the PFRS's actuary is expressing the annual required contribution as a level dollar amount amortized on a closed basis rather than as a level percent of payroll. Upon the closing of the plan, the required employer contribution for the year beginning July 1, 2013 was recomputed from $1,449,540 to $901,797.

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 required contribution for the year ended December 31, 2011 was $901,797; however actual contributions to the plan during the this period were $0. The annual required contribution was determined as part of actuarial valuations at December 31, 2008 and 2009, 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. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	$ 901,797
Interest on net OPEB obligation	61,812
Adjustment to annual required contribution	(57,285)
Net OPEB cost (expense)	906,324
Contributions made	-
Increase in net OPEB obligation	906,324
Net OPEB obligation, beginning of year	824,166
Net OPEB obligation, end of year	$ 1,730,490

Three-Year Trend Information			
Year Ended June 30,	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2010	$ 1,230,190	100.0%	$ -
2011	887,134	49.0%	824,166
2012	931,311	0.0%	1,730,490

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered
3/1/12 *	$ 239,781,316	$ 248,335,145	$ 8,553,829	96.6%	$ -	n/a

* March 1, 2012 valuation used the funding value of assets as of December 31, 2011

Reserves - As of December 31, 2011, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	$ 2,181,852
Reserve for retired benefit payments	202,611,057

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

14. DEFINED CONTRIBUTION PENSION PLAN

Defined Contribution Plan - Beginning January 1, 2002, the City began providing pension benefits to its full-time nonunion employees and elected officials through a 401(a) defined contribution plan. Nonunion employees and elected officials were given the option to participate in the defined contribution plan or the defined benefit plan. Effective July 1, 2005, SAEA members were also given the option to participate in the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council, the City contributes 9 percent of the employees' gross earnings and employees are required to contribute 3 percent.

The City's total payroll during the current year was $11,566,922. The current year contribution was calculated based on covered payroll of $150,395, resulting in an employer contribution of $9,001 and employee contributions of $4,212.

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

15. OTHER POSTEMPLOYMENT BENEFITS - GENERAL EMPLOYEES' RETIREMENT SYSTEM VEBA

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 was accumulating assets to generate investment earnings and used substantially all assets as of June 30, 2012 to reimburse the City for eligible retiree insurance benefits. 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 3 percent of eligible payroll toward pre-funding unless an actuarial valuation requires a lesser amount. The City has not made the minimum contribution to the Trust of $207,763 for the plan period ending December 31, 2011, and the City has stated the payments are not forthcoming and thus the Trust has not reflected these contributions in the current year financial statements. During the year ended December 31, 2011, the Trust reimbursed the City for healthcare costs paid by the City in the amount of $300,000, which represented a portion of payments made by the City for the period from July 1, 2010 through December 31, 2010. Additionally, for the period from January 1, 2011 through December 31, 2011, the City has estimated the portion of healthcare costs paid by the City to be $8,138,139 which is reflected as additional contributions to the plan and benefit payments made from the plan during the current year, pursuant to governmental accounting standards which require gross-up of qualified retiree healthcare payments made by the City even though they were not remitted to and paid through the plan.

Funding Progress. For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2010. 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	$ 9,148,597
Interest on net OPEB obligation	1,198,263
Adjustment to annual required contribution	(395,156)
Net OPEB cost (expense)	9,951,704
Contributions made	(5,650,705)
Increase in net OPEB obligation	4,300,999
Net OPEB obligation, beginning of year	15,976,841
Net OPEB obligation, end of year	$ 20,277,840

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

Three-Year Trend Information				
Year Ended June 30,	**Actuarial Valuation Date**	**Annual OPEB Cost**	**Percentage of of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
2010	12/31/2007	$ 9,927,292	70.09%	$ 6,194,216
2011	12/31/2008	10,323,054	5.24%	15,976,841
2012	12/31/2010	9,951,704	56.78%	20,277,840

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered
12/31/10	$ 488,148	$ 191,388,835	$ 190,900,687	0.26%	$ 9,493,229	2010.91%

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are 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.

In the December 31, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return compounded annually (net of administration expense), which consists of a real rate of return of .5 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, 2010 was an open 30-year period.

During 2011, a partial termination of the plan for general employees was deemed to have occurred. This resulted from the termination of various active employee positions at the City under Executive Orders issued by the Emergency Manager. The impact of membership composition and the funded status of the healthcare trust are unknown as this time; however, the Trust was abolished as of May 30, 2012. As the plan will cease to exist, the unfunded actuarial accrued liability will be reported at the plan sponsor level only going forward.

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

Plan Description. The Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, and who retired on or after August 22, 1996. 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 percentage of covered payroll which the trustees have deemed to be based on actuarial recommended amounts. During the City's fiscal year ended June 30, 2011, the City did not make any contributions into the Trust, which is reported in the City's financial statements as a pension and other employee benefit trust fund. The City has not yet made the minimum contribution to the Trust of $2,635,156 for the plan period ended December 31, 2011; however, the City anticipates that this payment will be forthcoming and thus the Trust has reflected these contributions in the current year financial statements.

Plan Changes. Subsequent to year end, an executive order modifying the terms of health care insurance for all retirees that are eligible and currently receiving these benefits was issued by the City's emergency manager pursuant to the provisions of Public Act 4 (PA 4), modeling the provisions of Public Act 152 of 2011 (PA 152). The executive order includes various plan changes, the most significant being that pre-age 65 retirees pay, by deductions from their pension checks, the amount above the "hard-cap" (as defined by PA 152), or 20 percent of the annual rates, whichever is higher, to be effective July 1, 2012.

Funding Progress. For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of March 31, 2012. 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	$ 4,031,162
Interest on net OPEB obligation	692,164
Adjustment to annual required contribution	(228,257)
Net OPEB cost (expense)	4,495,069
Contributions made	-
Increase in net OPEB obligation	4,495,069
Net OPEB obligation, beginning of year	9,228,857
Net OPEB obligation, end of year	$ 13,723,926

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

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	12/31/2007	$ 4,705,180	67.13%	$ 4,463,040
2011	12/31/2008	4,765,818	0.00%	9,228,858
2012	3/31/2012	4,495,069	0.00%	13,723,926

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered
3/1/12	$ 29,667,807	$ 137,140,392	$ 107,472,585	21.63%	$ -	n/a

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

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the March 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return as well as an alternate 5 percent investment rate of return compounded annually (net of administrative expenses). The financial statements reflect the use of the alternate 5 percent investment rate of return. The valuation also included a 10 percent medical car inflation rate assumption related to healthcare cost increases in the first year, decreasing in increments of 0.5 percent over the next 12 years to the ultimate 4 percent assumption. The actuarial value of assets is set to equal actuarial accrued value as of December 31, 2011. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at March 31, 2012 was 30 years.

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

Plan Description. The City also provided 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.

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).

Notes to Financial Statements

Funding Progress. For the year ended June 30, 2012, 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 an unfunded actuarial accrued liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	$ 3,590,354
Interest on the prior year's net OPEB obligation	52,455
Adjustment to annual required contribution	(17,097)
Net OPEB cost (expense)	3,625,712
Contributions made	(2,647,916)
Increase in net OPEB obligation	977,796
Net OPEB obligation, beginning of year	1,049,099
Net OPEB obligation, end of year	$ 2,026,895

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

Three-Year Trend Information				
Year Ended June 30,	Actuarial Valuation Date	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	12/31/2009	$ 3,615,924	90.99%	$ 1,055,482
2011	12/31/2009	3,627,333	100.18%	1,049,099
2012	12/31/2009	3,625,712	73.03%	2,026,895

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a Percentage of Covered
12/31/09	$ -	$ 73,645,892	$ 73,645,892	0.00%	$ 19,985,942	368.49%

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

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

In the December 31, 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.

Notes to Financial Statements

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

	Plan Net Assets				
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Assets					
Cash and cash equivalents	$ 5,091	$ 5,391	$ -	$ 51,714	$ 62,196
Investments at fair value:					
Money market and mutual funds	17,522,050	7,120,605	39,125	4,181,379	28,863,159
U.S. government agency notes and debentures	7,534,139	1,880,020	-	-	9,414,159
High-yield bonds	24,981,386	4,679,966	-	-	29,661,352
Corporate and other bonds	38,034,679	35,194,158	-	-	73,228,837
Equities	261,663,292	115,116,089	-	14,667,744	391,447,125
Private equities	6,567,644	6,779,731	-	1,268,916	14,616,291
Real estate	-	8,637,839	-	-	8,637,839
U.S. government mortgage-backed securities	26,021,757	13,778,440	-	-	39,800,197
Commercial mortgage pools	4,688,185	353,183	-	-	5,041,368
Asset-backed securities	6,715,801	67,197	-	-	6,782,998
Other fixed income	821,674	24,615,695	-	8,038,515	33,475,884
Accrued interest and dividends receivable	1,723,822	370,349	-	-	2,094,171
Accounts receivable:					
Due from City of Pontiac	-		301,685	-	301,685
Due from Police and Fire VEBA	-	135,318	-	-	135,318
Due from General Employees' Retirement System VEBA	21,420	-	-	-	21,420
Due from General Employees' Retirement System	-	743	-	-	743
Total assets	396,300,940	218,734,724	340,810	28,208,268	643,584,742
Liabilities					
Due to City of Pontiac	286,505	-	-	778,142	1,064,647
Due to General Employees' Retirement System	-	-	21,420	-	21,420
Due to Police and Fire Retirement System	743	-	-	119,443	120,186
Accounts payable	714,099	281,500	13,377	40,687	1,049,663
Total liabilities	1,001,347	281,500	34,797	938,272	2,255,916
Net assets held in trust for pension and other employee benefits	$ 395,299,593	$ 218,453,224	$ 306,013	$ 27,269,996	$ 641,328,826

	Changes in Plan Net Assets				
	General City Employees' Retirement System	Police and Fire Retirement System	General City Employees' Retirement System VEBA	Police and Fire Retirement System VEBA	Total
Additions					
Investment income:					
Interest and dividend income	$ 9,999,869	$ 3,228,551	$ 3,229	$ 765,625	$ 13,997,274
Net increase (decrease) in fair value	(10,390,964)	(4,153,149)	13,837	(1,044,683)	(15,574,959)
Less investment advisor fees	(2,694,399)	(847,371)	-	(98,053)	(3,639,823)
Net investment income	(3,085,494)	(1,771,969)	17,066	(377,111)	(5,217,508)
Securities lending income:					
Interest and fees	237,776	94,232	-	-	332,008
Less borrower rebates and bank fees	(78,910)	(52,961)	-	-	(131,871)
Net securities lending income	158,866	41,271	-	-	200,137
Contributions:					
Employer	-	-	8,439,824	-	8,439,824
Employee	23,083	786,538	-	35,875	845,496
Total contributions	23,083	786,538	8,439,824	35,875	9,285,320
Miscellaneous and litigation revenue	81,465	41,513	-	-	122,978
Total additions	(2,822,080)	(902,647)	8,456,890	(341,236)	4,390,927
Deductions					
Retirees' pension benefits and retirement incentives	21,037,340	18,051,695	-	-	39,089,035
Retiree health benefit payments	-	-	8,438,139	3,129,737	11,567,876
Member refunds and withdrawals	-	711,290	-	-	711,290
Other expenses	433,714	317,383	32,937	43,690	827,724
Charges from the City - administrative expenses	286,507	122,789	-	-	409,296
Total deductions	21,757,561	19,203,157	8,471,076	3,173,427	52,605,221
Change in net assets	(24,579,641)	(20,105,804)	(14,186)	(3,514,663)	(48,214,294)
Net assets, beginning of year	419,879,234	238,559,028	320,199	30,784,659	689,543,120
Net assets, end of year	$ 395,299,593	$ 218,453,224	$ 306,013	$ 27,269,996	$ 641,328,826

Notes to Financial Statements

19. 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.

20. 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) In addition to TGM setting aside 3 percent of revenue to be spent on capital improvements, TGM is required to compensate the City annually from 2011-2014 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
   - $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.

21. MANAGEMENT'S PLAN

A preliminary review of the City's financial condition was performed by the State of Michigan on July 31, 2007 in accordance with Section 12(1) of Public Act 72 of 1990. The State concluded from the review that a serious financial problem did exist and ultimately appointed an emergency financial manager (EFM) to run the City on March 19, 2009. This EFM served until June 30, 2010. A second EFM was appointed and served from July 4, 2010 to September 8, 2011. A third EFM was appointed on September 12, 2011 and is currently still serving the City under the provisions of Public Act 72 of 1990.

The current EFM adopted the 2012/2013 General Fund budget which continued to reflect a substantial loss of operating revenue from that experienced in the prior years. The result of the additional loss of revenue is a budgeted operating deficit for the 2012/2013 fiscal year on top of the deficit at June 30, 2012. The City entered into an agreement with Oakland County Water Resource Commission (WRC) in fiscal year 2013 to sell the City's wastewater treatment plant to WRC for $55,000,000. The net proceeds of the WRC sale after paying certain water and sewer debt will go to the General Fund. This agreement would also include transferring the City's Water and Sewer operations to WRC as well as the City's water and sewer lines. The proceeds of this transaction after retiring a substantial amount of outstanding General Fund and TIFA debt will be sufficient to eliminate the cumulative deficit and provide enough resources to eliminate the operating deficit for the 2012/2013 fiscal year.

During the next year, the EFM will continue to explore all options to eliminate the annual operating deficit of approximately $6,000,000 prior to the beginning of the 2013/2014 fiscal year.

22. SUBSEQUENT EVENTS

Subsequent to year end, the City entered into an agreement with Oakland County Water Resource Commission (WRC) to sell the City's wastewater treatment plant to WRC for $55,000,000. This agreement also included transferring the City's Water and Sewer operations to WRC. The City used a portion of the proceeds to defease certain Water and Sewer Bonds, General Fund Fiscal Stabilization Bonds, and TIFA Bonds. Other certain remaining proceeds from the transaction resulted in eliminating the fiscal year 2013 cumulative fund deficit in the General Fund.

Effective July 1, 2012, the City has dissolved the City's General Building Authority (GBA) and Downtown Development Authority (DDA). Also effective July 1, 2012, the City has repealed the City's Economic Development Corporation (EDC). The dissolution of the DDA eliminates any property tax capture relating to the DDA starting in fiscal year 2013.

Notes to Financial Statements

23. DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* in the prior year. GASB 54 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. Detailed information on fund balances of governmental funds is as follows:

	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Inventories	$ -	$ 19,382	$ 19,382
Prepaid items	1,322,523	45,261	1,367,784
Total nonspendable	1,322,523	64,643	1,387,166
Restricted			
Roads	-	1,437,216	1,437,216
Grants	-	479,478	479,478
Capital projects	-	398,857	398,857
Landfill postclosure costs	-	2,178,415	2,178,415
Drains	-	681,777	681,777
Senior activities	-	1,206,079	1,206,079
Cable television	-	1,119,389	1,119,389
Total	-	7,501,211	7,501,211
Unassigned (deficit)	(4,748,117)	(868,219)	(5,616,336)
Total fund balances (deficit)	$ (3,425,594)	$ 6,697,635	$ 3,272,041

24. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

Below is a calculation of the amount shown on the statement of net assets for invested in capital assets net of related debt:

	Governmental Activities	Business-type Activities
Capital assets		
Not being depreciated	$ 53,742,302	$ 22,158,531
Being depreciated	54,057,486	44,532,764
Total capital assets	107,799,788	66,691,295
Less related debt		
Revenue bonds	-	(15,710,464)
Capital lease obligations	(1,777,044)	-
Invested in capital assets, net of related debt	$ 106,022,744	$ 50,980,831

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

General Employees' Retirement System

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2005	$ 391,409,757	$ 260,103,260	$ (131,306,497)	150.5%	$ 16,751,815	0.0%
12/31/2006	409,983,491	266,557,429	(143,426,062)	153.8%	14,996,753	0.0%
12/31/2007	433,028,186	257,940,349	(175,087,837)	167.9%	13,559,473	0.0%
12/31/2008	416,678,512	261,497,756	(155,180,756)	159.3%	14,414,841	0.0%
12/31/2009	405,193,572	255,720,207	(149,473,365)	158.5%	12,553,146	0.0%
12/31/2010	399,573,669	253,866,554	(145,707,115)	157.4%	9,493,229	0.0%

Schedule of Employer Contributions

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2007	12/31/2004	$ 15,695	100.0%
2008	12/31/2005	-	100.0%
2009	12/31/2006	-	100.0%
2010	12/31/2007	-	100.0%
2011	12/31/2008	-	100.0%
2012	12/31/2009	-	100.0%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Asset valuation method	5-year smoothed market value
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%

Required Supplementary Information

Police and Fire Retirement System

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	$ 258,738,855	$ 231,715,863	$ (27,022,992)	111.7%	$ 12,831,719	0.0%
12/31/2007	271,992,032	235,981,324	(36,010,708)	115.3%	11,066,828	0.0%
12/31/2008	265,251,339	238,217,676	(27,033,663)	111.3%	9,749,807	0.0%
12/31/2009	259,240,616	243,283,874	(15,956,742)	106.6%	7,405,796	0.0%
12/31/2010	253,878,331	244,915,039	(8,963,292)	103.7%	6,667,866	0.0%
12/31/2011	239,781,316	245,699,778	5,918,462	97.6%	3,141,128	188.4%
3/1/2012 *	239,781,316	248,335,145	8,553,829	96.6%	-	n/a

March 1, 2012 valuation used the funding value of assets as of December 31, 2011

Schedule of Employer Contributions

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2007	12/31/2005	$ 2,344,231	100.0%
2008	12/31/2006	1,829,115	100.0%
2009	12/31/2007	1,230,190	100.0%
2010	12/31/2008	887,134	49.0%
2011	12/31/2009	931,311	0.0%
2012	3/1/2012	901,797	n/a *

* Contribution requirements are not yet due

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 1, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age normal cost
Amortization method contributions	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
Investment rate of return *	7.596%
Projected salary increases *	4.596% to 11.096%

* Includes inflation at 4.096%

Required Supplementary Information

General Employees' Retirement System VEBA

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2005	$ 3,973,887	$ 157,048,845	$ 153,074,958	2.5%	$ 16,751,815	913.8%
12/31/2006	4,928,700	154,823,626	149,894,926	3.2%	14,996,753	999.5%
12/31/2007	5,682,510	159,345,212	153,662,702	3.6%	13,559,473	1133.2%
12/31/2008	4,796,224	226,279,072	221,482,848	2.1%	14,414,481	1536.5%
12/31/2009	6,207,984	129,889,840	123,681,856	4.8%	12,553,146	985.3%
12/31/2010	488,148	191,388,835	190,900,687	0.3%	9,493,229	2010.9%

Schedule of Employer Contributions

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC) *	Amount Contributed **
2008	12/31/2005	$ -	$ 451,945
2009	12/31/2006	10,674,833	7,450,360
2010	12/31/2007	9,759,248	6,957,547
2011	12/31/2008	10,000,245	540,429

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

** In accordance with GASB Statement No. 45, the amount contributed for 2011 excludes premiums of $6,841,607, which were reimbursed to the City from the Trust.

Required Supplementary Information

Police and Fire Retirement System VEBA

Schedule of Funding Progress

Actuarial Valuation Date *	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	$ 25,534,993	$ 79,788,465	$ 54,253,472	32.0%	$ 12,831,719	422.8%
12/31/2007	30,185,216	73,171,572	42,986,356	41.3%	11,066,828	388.4%
12/31/2008	31,405,001	113,221,193	81,816,192	27.7%	9,749,807	839.2%
12/31/2009	32,313,276	125,406,797	93,093,521	25.8%	7,405,796	1257.0%
12/31/2010	34,821,105	115,446,247	80,625,142	30.2%	6,667,866	1209.2%
3/31/2012 **	29,667,807	137,140,392	107,472,585	21.6%	-	n/a

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

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

Schedule of Employer Contributions

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Amount Contributed *
2008	12/31/2005	$ -	$ 2,908,138
2009	12/31/2006	5,584,865	2,678,324
2010	12/31/2007	4,553,185	3,158,681
2011	12/31/2008	4,533,229	-

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

Required Supplementary Information

Retiree Health Care Plan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2006	$ -	$ 90,952,284	$ 90,952,284	0.0%	$ 29,840,682	304.8%
12/31/2009	-	73,645,892	73,645,892	0.0%	19,985,942	368.5%

Schedule of Employer Contributions			
Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage Contributed
2009	12/31/2006	$ 4,380,928	83.3%
2010	12/31/2009	3,590,354	91.6%
2011	12/31/2009	3,590,354	101.2%
2012	12/31/2009	3,590,354	73.8%

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 17,787,270	$ 17,421,069	$ 18,833,601	$ 1,412,532
Licenses and permits	1,564,396	3,048,620	3,210,881	162,261
Federal grants	-	-	936,428	936,428
State grants	8,006,297	8,383,887	8,427,715	43,828
Contributions from local units	300,000	126,330	12,500	(113,830)
Charges for services	5,486,147	4,706,902	4,782,499	75,597
Other revenue	531,582	2,301,352	2,505,394	204,042
Total revenues	33,675,692	35,988,160	38,709,018	2,720,858
Expenditures				
Current:				
General government:				
City council	24,197	14,557	11,724	(2,833)
City clerk:				
Elections	123,391	110,117	106,275	(3,842)
City clerk	226,879	235,684	224,831	(10,853)
Attorney:				
City attorney	433,136	179,063	176,229	(2,834)
Outside legal services	830,000	709,286	821,845	112,559
Finance:				
Information technology	616,395	560,838	557,741	(3,097)
Accounting	367,500	376,500	366,750	(9,750)
Income tax administration	252,851	274,558	308,709	34,151
Finance administration	486,425	400,530	368,422	(32,108)
Accounts payable	75,276	49,121	49,309	188
Assessor	416,700	416,760	413,520	(3,240)
Budget and research	60,000	-	924	924
Purchasing	5,775	-	1,171	1,171
Treasurer	286,211	450,721	491,169	40,448
Executive office:				
Emergency manager	330,137	370,233	385,443	15,210
Mayor	23,637	60,037	60,411	374
Personnel:				
Labor relations	99,325	5,617	6,316	699
Personnel services	222,693	265,813	341,045	75,232
Payroll	12,030	25,319	16,987	(8,332)
Total general government	4,892,558	4,504,754	4,708,821	204,067
Public safety:				
Unemployment compensation	-	367,000	305,983	(61,017)
Building and safety engineer	708,395	2,377,734	2,593,480	215,746
Police:				
Office of the Chief	-	19,378	20,598	1,220
Administrative services	9,983,295	10,681,424	10,714,583	33,159
Investigative services	-	133,557	133,557	-
Uniformed services	-	335,945	337,938	1,993
Pontiac School District	31,230	62,090	77,763	15,673
Fire	10,267,070	10,133,851	9,144,899	(988,952)
Total public safety	20,989,990	24,110,979	23,328,801	(782,178)

continued...

Budgetary Comparison Schedule

General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Public works:				
Building maintenance	$ 438,291	$ 411,578	$ 413,581	$ 2,003
Electrical shop	-	82,398	-	(82,398)
Operations	-	115,248	-	(115,248)
Engineering	-	73,289	-	(73,289)
Street lighting	752,952	969,030	983,223	14,193
Weed abatement	11,013	12,412	14,965	2,553
Grounds maintenance	464,867	491,514	249,113	(242,401)
Total public works	1,667,123	2,155,469	1,660,882	(494,587)
Community development:				
Transfer to Brownfield Redevelopment Authority	-	15,565	49,439	33,874
Transfer to Tax Increment Finance Authority	-	1,030,523	1,700,057	669,534
Tele-van services	121,456	120,078	101,566	(18,512)
Redevelopment and housing	-	60,000	75,443	15,443
Howard Dell Center	15,806	1,962	1,646	(316)
Ewalt Center/Galloway Park	8,494	4,701	1,423	(3,278)
Recreation	3,125	30,131	30,755	624
Planning division	-	134,000	135,318	1,318
Planning commission	3,500	3,500	-	(3,500)
Historic commission	400	-	-	-
Total community development	152,781	1,400,460	2,095,647	695,187
General and special programs	7,001,019	8,248,032	6,003,953	(2,244,079)
Debt service	2,159,963	2,159,963	2,159,963	-
Total expenditures	36,863,434	42,579,657	39,958,067	(2,621,590)
Revenue under expenditures	(3,187,742)	(6,591,497)	(1,249,049)	5,342,448
Other financing sources (uses)				
Transfers in	-	210,345	210,345	-
Transfers out	(5,983,078)	(3,095,016)	(2,941,622)	(153,394)
Total other financing sources (uses)	(5,983,078)	(2,884,671)	(2,731,277)	(153,394)
Net changes in fund balances	(9,170,820)	(9,476,168)	(3,980,326)	5,189,054
Fund balances, beginning of year	554,732	554,732	554,732	-
Fund balances (deficit), end of year	$ (8,616,088)	$ (8,921,436)	$ (3,425,594)	$ 5,189,054

concluded

Note to Required Supplemental Information

1. BUDGETARY INFORMATION

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

Budget requests are reviewed by the budget department, finance department and executive office. The Emergency Financial Manager adopts the final budget by June 30 each year.

The budget document presents information by fund, function and department. The legal level of budgetary control adopted by the Emergency Financial Manager is the department level. All budget amendments are approved by the Emergency Financial Manager.

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

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Final Budget	Actual	Variance
General fund:			
General government:			
Attorney -			
Outside legal services	$ 709,286	$ 821,845	$ 112,559
Finance:			
Income tax administration	274,558	308,709	34,151
Accounts payable	49,121	49,309	188
Budget and research	-	924	924
Purchasing	-	1,171	1,171
Treasurer	450,721	491,169	40,448
Executive office:			
Emergency Manager	370,233	385,443	15,210
Mayor	60,037	60,411	374
Personnel:			
Labor relations	5,617	6,316	699
Personnel services	265,813	341,045	75,232
Public safety:			
Building and safety engineer	2,377,734	2,593,480	215,746
Police:			
Office of the Chief	19,378	20,598	1,220
Administrative services	10,681,424	10,714,583	33,159
Uniformed services	335,945	337,938	1,993
Pontiac School District	62,090	77,763	15,673

Note to Required Supplemental Information

	Final Budget	Actual	Variance
Public works:			
Building maintenance	$ 411,578	$ 413,581	$ 2,003
Street lighting	969,030	983,223	14,193
Weed abatement	12,412	14,965	2,553
Community development:			
Transfer to Brownfield Redeve	15,565	49,439	33,874
Transfer to Tax Increment Fina	1,030,523	1,700,057	669,534
Redevelopment and housing	60,000	75,443	15,443
Recreation	30,131	30,755	624
Planning division	134,000	135,318	1,318

COMBINING FUND STATEMENTS

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue	Capital Projects	Debt Service	Total
Assets				
Cash and cash equivalents	$ 4,909,930	$ 745,944	$ -	$ 5,655,874
Accounts receivable	100,770	-	-	100,770
Taxes receivable	9,003	3,717	-	12,720
Due from other governments	1,387,421	908,075	-	2,295,496
Due from other funds	542,218	-	-	542,218
Inventory	19,382	-	-	19,382
Prepaids	45,261	-	-	45,261
Restricted cash and cash equivalents	2,497,574	-	-	2,497,574
Total assets	$ 9,511,559	$ 1,657,736	$ -	$ 11,169,295
Liabilities				
Accounts payable	$ 1,214,320	$ 283,438	$ -	$ 1,497,758
Accrued wages	42,777	-	-	42,777
Due to other governments	394,419	136,668	-	531,087
Due to other funds	488,843	801,158	-	1,290,001
Deposits payable	10,078	-	-	10,078
Deferred revenue	528,976	570,983	-	1,099,959
Total liabilities	2,679,413	1,792,247	-	4,471,660
Fund balances				
Nonspendable	64,643	-	-	64,643
Restricted	7,102,354	398,857	-	7,501,211
Unassigned (deficit)	(334,851)	(533,368)	-	(868,219)
Total fund balances	6,832,146	(134,511)	-	6,697,635
Total liabilities and fund balances	$ 9,511,559	$ 1,657,736	$ -	$ 11,169,295

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue	Capital Projects	Debt Service	Total
Revenues				
Taxes and special assessments	$ 3,507,412	$ 902,210	$ -	$ 4,409,622
Federal revenue	6,490,562	340,811	-	6,831,373
State revenue	5,318,241	-	-	5,318,241
Charges for services	954,054	-	-	954,054
Fines and forfeitures	1,531,753	-	-	1,531,753
Interest revenue	2,956	-	-	2,956
Contribution from component unit	-	-	1,086,457	1,086,457
Other revenue	449,287	10,000	-	459,287
Total revenues	18,254,265	1,253,021	1,086,457	20,593,743
Expenditures				
Current expenditures:				
General government	42,932	-	-	42,932
District court	4,109,474	-	-	4,109,474
Public safety	150,074	-	-	150,074
Public works and utilities	8,029,435	-	-	8,029,435
Community development	6,800,377	-	-	6,800,377
Community and human services	522,460	-	-	522,460
Debt service:				
Principal	2,000,000	632,611	1,025,000	3,657,611
Interest	453	79,923	61,457	141,833
Capital outlay	-	3,517,747	-	3,517,747
Total expenditures	21,655,205	4,230,281	1,086,457	26,971,943
Revenues over (under) expenditures	(3,400,940)	(2,977,260)	-	(6,378,200)
Other financing sources (uses)				
Transfers in	2,882,572	1,439,147	-	4,321,719
Transfers out	(1,697,249)	(2,401,199)	-	(4,098,448)
Total other financing sources (uses)	1,185,323	(962,052)	-	223,271
Net change in fund balances	(2,215,617)	(3,939,312)	-	(6,154,929)
Fund balances, beginning of year	9,047,763	3,804,801	-	12,852,564
Fund balances, end of year	$ 6,832,146	$ (134,511)	$ -	$ 6,697,635

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012

	Major Streets	Local Streets	PA-48 Tele-communication Allocation	Sanitation Fund
Assets				
Cash and cash equivalents	$ 364	$ 11,461	$ 553,270	$ 234,795
Accounts receivable	-	-	-	3,728
Taxes receivable	-	-	-	7,436
Due from other governments	522,426	157,300	-	-
Due from other funds	342,218	200,000	-	-
Inventory	19,382	-	-	-
Prepaids	4,988	-	-	-
Restricted cash and cash equivalents	-	-	-	2,497,574
Total assets	$ 889,378	$ 368,761	$ 553,270	$ 2,743,533
Liabilities				
Accounts payable	$ 323,383	$ 813	$ -	$ 281,783
Accrued wages	-	-	-	2,552
Due to other governments	-	-	-	273,347
Due to other funds	25,627	-	-	-
Deposits payable	-	-	-	-
Deferred revenue	-	-	-	7,436
Total liabilities	349,010	813	-	565,118
Fund balances				
Nonspendable	24,370	-	-	-
Restricted	515,998	367,948	553,270	2,178,415
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	540,368	367,948	553,270	2,178,415
Total liabilities and fund balances	$ 889,378	$ 368,761	$ 553,270	$ 2,743,533

District Court	Chapter 20 Drain	Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund
$ 272,952	$ 777,125	$ 217,190	$ 1,254,460	$ 100	$ 474,796
43,302	-	3,607	-	538	-
-	-	-	1,567	-	-
-	-	264,748	-	154,032	-
-	-	-	-	-	-
-	-	-	-	-	-
40,273	-	-	-	-	-
-	-	-	-	-	-
$ 356,527	$ 777,125	$ 485,545	$ 1,256,027	$ 154,670	$ 474,796
$ 21,792	$ 94,390	$ 287,165	$ 2,604	$ 153,018	$ 381
31,618	-	5,664	2,269	-	-
75,847	958	-	43,508	-	-
217,192	-	-	-	1,652	-
10,078	-	-	-	-	-
-	-	393,964	1,567	-	-
356,527	95,348	686,793	49,948	154,670	381
40,273	-	-	-	-	-
-	681,777	-	1,206,079	-	474,415
-	-	-	-	-	-
(40,273)	-	(201,248)	-	-	-
-	681,777	(201,248)	1,206,079	-	474,415
$ 356,527	$ 777,125	$ 485,545	$ 1,256,027	$ 154,670	$ 474,796

continued...

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012

	MEDQ Grant Pontiac Creek Stormwater Plan	Police Training Grant Act 302	Cable Fund	Neighborhood Stabilization
Assets				
Cash and cash equivalents	$ -	$ 5,063	$ 1,108,354	$ -
Accounts receivable	-	-	43,714	2,787
Taxes receivable	-	-	-	-
Due from other governments	-	-	-	132,200
Due from other funds	-	-	-	-
Inventory	-	-	-	-
Prepaids	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	$ -	$ 5,063	$ 1,152,068	$ 134,987
Liabilities				
Accounts payable	$ -	$ -	$ -	$ 18,274
Accrued wages	-	-	-	674
Due to other governments	-	-	-	-
Due to other funds	-	-	-	116,039
Deposits payable	-	-	-	-
Deferred revenue	-	-	32,679	-
Total liabilities	-	-	32,679	134,987
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	5,063	1,119,389	-
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	-	5,063	1,119,389	-
Total liabilities and fund balances	$ -	$ 5,063	$ 1,152,068	$ 134,987

Homeless Shelter	Blight Demolition Grant	Energy Efficiency and Conservation	Cemetery Fund	Total
$ -	$ -	$ -	$ -	$ 4,909,930
-	-	-	3,094	100,770
-	-	-	-	9,003
63,385	-	93,330	-	1,387,421
-	-	-	-	542,218
-	-	-	-	19,382
-	-	-	-	45,261
-	-	-	-	2,497,574
$ 63,385	$ -	$ 93,330	$ 3,094	$ 9,511,559
$ -	$ -	$ 28,975	$ 1,742	$ 1,214,320
-	-	-	-	42,777
-	-	-	759	394,419
63,385	-	64,355	593	488,843
-	-	-	-	10,078
-	-	93,330	-	528,976
63,385	-	186,660	3,094	2,679,413
-	-	-	-	64,643
-	-	-	-	7,102,354
-	-	-	-	-
-	-	(93,330)	-	(334,851)
-	-	(93,330)	-	6,832,146
$ 63,385	$ -	$ 93,330	$ 3,094	$ 9,511,559

concluded

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012

	Major Streets	Local Streets	PA-48 Tele-communication Allocation	Sanitation Fund
Revenues				
Taxes and special assessments	$ -	$ -	$ -	$ 3,185,481
Federal revenue	186,401	-	-	-
State revenue	3,692,168	962,373	196,490	-
Charges for services	-	-	-	795,835
Fines and forfeitures	-	-	-	-
Interest revenue	-	-	-	68
Other revenue	20	-	-	1,707
Total revenues	3,878,589	962,373	196,490	3,983,091
Expenditures				
Current expenditures:				
General government	-	-	-	-
District court	-	-	-	-
Public safety	-	-	-	-
Public works and utilities	2,126,171	775,492	4	4,302,931
Community development	-	-	-	-
Community and human services	-	-	-	-
Debt service -				
Principal	-	-	-	-
Interest	453	-	-	-
Total expenditures	2,126,624	775,492	4	4,302,931
Revenues over (under) expenditures	1,751,965	186,881	196,486	(319,840)
Other financing sources (uses)				
Transfers in	60,216	-	-	-
Transfers out	(1,389,363)	-	(210,345)	-
Total other financing sources (uses)	(1,329,147)	-	(210,345)	-
Net change in fund balances	422,818	186,881	(13,859)	(319,840)
Fund balances, beginning of year	117,550	181,067	567,129	2,498,255
Fund balances, end of year	$ 540,368	$ 367,948	$ 553,270	$ 2,178,415

District Court	Chapter 20 Drain	Community Development Block Grant	Senior Activities	HOME Investment Partnerships Grant	Drug Enforcement Fund
$ -	$ 1,268	$ -	$ 320,663	$ -	$ -
-	-	3,166,152	-	1,000,755	-
228,620	-	-	-	-	-
-	-	-	-	-	-
1,440,160	-	-	-	-	91,593
2,319	-	-	-	-	-
260,681	-	45,950	7,860	-	-
1,931,780	1,268	3,212,102	328,523	1,000,755	91,593
-	-	-	-	-	-
4,109,474	-	-	-	-	-
-	-	-	-	-	113,036
-	142,225	-	-	-	-
-	-	3,413,350	-	1,000,755	-
-	-	-	397,367	-	-
-	2,000,000	-	-	-	-
-	-	-	-	-	-
4,109,474	2,142,225	3,413,350	397,367	1,000,755	113,036
(2,177,694)	(2,140,957)	(201,248)	(68,844)	-	(21,443)
2,229,277	-	-	-	-	-
(51,583)	-	-	-	-	-
2,177,694	-	-	-	-	-
-	(2,140,957)	(201,248)	(68,844)	-	(21,443)
-	2,822,734	-	1,274,923	-	495,858
$ -	$ 681,777	$ (201,248)	$ 1,206,079	$ -	$ 474,415

continued...

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012

	MEDQ Grant Pontiac Creek Stormwater Plan	Police Training Grant Act 302	Cable Fund	Neighborhood Stabilization
Revenues				
Taxes and special assessments	$ -	$ -	$ -	$ -
Federal revenue	-	-	-	1,976,761
State revenue	31,070	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest revenue	-	-	-	-
Other revenue	-	-	127,976	-
Total revenues	31,070	-	127,976	1,976,761
Expenditures				
Current expenditures:				
General government	-	-	42,932	-
District court	-	-	-	-
Public safety	-	37,038	-	-
Public works and utilities	3,638	-	-	-
Community development	-	-	-	1,976,761
Community and human services	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	3,638	37,038	42,932	1,976,761
Revenues under expenditures	27,432	(37,038)	85,044	-
Other financing sources (uses)				
Transfers in	4,724	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	4,724	-	-	-
Net change in fund balances	32,156	(37,038)	85,044	-
Fund balances, beginning of year, as restated	(32,156)	42,101	1,034,345	-
Fund balances, end of year	$ -	$ 5,063	$ 1,119,389	$ -

Homeless Shelter	Blight Demolition Grant	Energy Efficiency and Conservation	Cemetery Fund	Total
$ -	$ -	$ -	$ -	$ 3,507,412
125,093	35,400	-	-	6,490,562
-	207,520	-	-	5,318,241
-	-	-	158,219	954,054
-	-	-	-	1,531,753
-	-	-	569	2,956
-	-	-	5,093	449,287
125,093	242,920	-	163,881	18,254,265
-	-	-	-	42,932
-	-	-	-	4,109,474
-	-	-	-	150,074
-	-	93,330	585,644	8,029,435
-	409,511	-	-	6,800,377
125,093	-	-	-	522,460
-	-	-	-	2,000,000
-	-	-	-	453
125,093	409,511	93,330	585,644	21,655,205
-	(166,591)	(93,330)	(421,763)	(3,400,940)
-	166,591	-	421,764	2,882,572
-	-	-	(45,958)	(1,697,249)
-	166,591	-	375,806	1,185,323
-	-	(93,330)	(45,957)	(2,215,617)
-	-	-	45,957	9,047,763
$ -	$ -	$ (93,330)	$ -	$ 6,832,146

concluded

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2012

	Capital Improvement	CVC Infrastructure Improvements	Pontiac Woods Development
Assets			
Cash and cash equivalents	$ 599,783	$ -	$ -
Taxes receivable	3,717	-	-
Due from other governments	-	-	-
Total assets	$ 603,500	$ -	$ -
Liabilities			
Accounts payable	$ 210,362	$ -	$ -
Due to other governments	136,668	-	-
Due to other funds	-	-	-
Deferred revenue	3,717	-	-
Total liabilities	350,747	-	-
Fund balances			
Restricted	252,753	-	-
Unassigned (deficit)	-	-	-
Total fund balances (deficit)	252,753	-	-
Total liabilities and fund balances	$ 603,500	$ -	$ -

Strand Theater Project	ML King Construction	Clinton River Linear Park Trail	Total
$ 146,161	$ -	$ -	$ 745,944
-	-	-	3,717
-	612,079	295,996	908,075
$ 146,161	$ 612,079	$ 295,996	$ 1,657,736
$ 57	$ 73,019	$ -	$ 283,438
-	-	-	136,668
-	539,060	262,098	801,158
-	271,269	295,997	570,983
57	883,348	558,095	1,792,247
146,104	-	-	398,857
-	(271,269)	(262,099)	(533,368)
146,104	(271,269)	(262,099)	(134,511)
$ 146,161	$ 612,079	$ 295,996	$ 1,657,736

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2012

	Capital Improvement	CVC Infrastructure Improvements	Pontiac Woods Development
Revenues			
Taxes	$ 902,210	$ -	$ -
Federal revenue	-	-	-
Other revenue	-	-	-
Total revenues	902,210	-	-
Expenditures			
Debt service:			
Principal	632,611	-	-
Interest	79,923	-	-
Capital outlay	972,927	621,888	111,506
Total expenditures	1,685,461	621,888	111,506
Revenues over (under) expenditures	(783,251)	(621,888)	(111,506)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(2,401,199)	-	-
Total other financing sources (uses)	(2,401,199)	-	-
Net change in fund balances	(3,184,450)	(621,888)	(111,506)
Fund balance (deficit), beginning of year	3,437,203	621,888	111,506
Fund balance (deficit), end of year	$ 252,753	$ -	$ -

Strand Theater Project	ML King Construction	Clinton River Linear Park Trail	Total
$ -	$ -	$ -	$ 902,210
-	340,811	-	340,811
10,000	-	-	10,000
10,000	340,811	-	1,253,021
-	-	-	632,611
-	-	-	79,923
19,918	1,724,586	66,922	3,517,747
19,918	1,724,586	66,922	4,230,281
(9,918)	(1,383,775)	(66,922)	(2,977,260)
-	1,439,147	-	1,439,147
-	-	-	(2,401,199)
-	1,439,147	-	(962,052)
(9,918)	55,372	(66,922)	(3,939,312)
156,022	(326,641)	(195,177)	3,804,801
$ 146,104	$ (271,269)	$ (262,099)	$ (134,511)

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet
Nonmajor Debt Services
June 30, 2012

	Refinanced Golf Course Bonds	GBA Bonds	Total
Assets			
Cash and cash equivalents	$ -	$ -	$ -
Fund balances			
Restricted	$ -	$ -	$ -

CITY OF PONTIAC, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2012

	Refinanced Golf Course Bonds	GBA Bonds	Total
Revenues			
Contribution from component units	$ 756,252	$ 330,205	$ 1,086,457
Expenditures			
Debt service:			
Principal payments	710,000	315,000	1,025,000
Interest	46,252	15,205	61,457
Total expenditures	756,252	330,205	1,086,457
Net change in fund balances	-	-	-
Fund balances, beginning of year	-	-	-
Fund balances, end of year	$ -	$ -	$ -

Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Self-insurance Optical and Hearing
Assets				
Current assets:				
Cash and cash equivalents	$ 623,217	$ 1,490,752	$ 28,306	$ 360
Accounts receivable	23,018	-	20,432	-
Inventory	154,127	-	-	-
Prepaids	-	154,290	-	-
Total current assets	800,362	1,645,042	48,738	360
Noncurrent assets -				
Capital assets being depreciated, net	2,325,181	-	-	-
Total assets	3,125,543	1,645,042	48,738	360
Liabilities				
Current liabilities:				
Accounts payable	38,214	51,868	48,738	-
Accrued liabilities	-	1,500,000	-	-
Accrued wages	4,544	-	-	-
Interest payable	102,747	-	-	-
Due to other fund	-	-	-	360
Current portion of long-term debt	404,387	-	-	-
Total current liabilities	549,892	1,551,868	48,738	360
Noncurrent liabilities:				
Long-term debt, net of current portion	1,372,657	-	-	-
Total liabilities	1,922,549	1,551,868	48,738	360
Net assets				
Invested in capital assets, net of related debt	548,137	-	-	-
Unrestricted	654,857	93,174	-	-
Total net assets	$ 1,202,994	$ 93,174	$ -	$ -

Insurance	Employee Sick and Vacation	Total
$ 2,543,598	$ -	$ 4,686,233
677,681	-	721,131
-	-	154,127
405,281	-	559,571
3,626,560	-	6,121,062
-	-	2,325,181
3,626,560	-	8,446,243
98,352	-	237,172
3,526,325	-	5,026,325
1,883	-	6,427
-	-	102,747
-	-	360
-	-	404,387
3,626,560	-	5,777,418
-	-	1,372,657
3,626,560	-	7,150,075
-	-	548,137
-	-	748,031
$ -	$ -	$ 1,296,168

Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2012

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Self-insurance Optical and Hearing
Operating revenues				
Charges for services	$ 743,852	$ 38,625	$ 758,467	$ 103,974
Operating expenses				
Insurance	-	-	758,467	103,974
Operating and maintenance costs	752,882	-	-	-
Administration	505,352	-	-	-
Workers' compensation expense - net of change in liability	-	(54,549)	-	-
Depreciation	617,435	-	-	-
Total operating expenses	1,875,669	(54,549)	758,467	103,974
Operating income (loss)	(1,131,817)	93,174	-	-
Nonoperating revenues (expenses)				
Interest expense and fees	(133,526)	-	-	-
Income (loss) before transfers	(1,265,343)	93,174	-	-
Other financing sources (uses)				
Transfers in	905,862	-	-	-
Change in net assets	(359,481)	93,174	-	-
Net assets, beginning of year	1,562,475	-	-	-
Net assets, end of year	$ 1,202,994	$ 93,174	$ -	$ -

Insurance	Employee Sick and Vacation	Total
$ 17,880,689	$ 1,869,858	$ 21,395,465
17,867,625	-	18,730,066
-	1,869,858	2,622,740
31,592	-	536,944
-	-	(54,549)
-	-	617,435
17,899,217	1,869,858	22,452,636
(18,528)	-	(1,057,171)
-	-	(133,526)
(18,528)	-	(1,190,697)
-	-	905,862
(18,528)	-	(284,835)
18,528	-	1,581,003
$ -	$ -	$ 1,296,168

CITY OF PONTIAC, MICHIGAN

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012

	Equipment Revolving	Self-insurance Workers' Compensation	Dental Insurance	Self-insurance Optical and Hearing
Cash flows from operating activities				
Cash received from interfund services	$ 880,853	$ 55,342	$ 797,288	$ 106,612
Cash payments for goods and services	(1,129,352)	(1,141,842)	(803,300)	(115,045)
Cash payments to employees	(429,569)	-	-	-
Net cash provided by (used for) operating activities	(678,068)	(1,086,500)	(6,012)	(8,433)
Cash flows from noncapital financing activities				
Transfers in	905,862	-	-	-
Repayment of loans made to other funds	-	2,331,876	-	-
Net cash provided by noncapital financing activities	905,862	2,331,876	-	-
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	180,147	-	-	-
Principal paid on capital leases	(1,174,755)	-	-	-
Interest paid on capital leases	(30,779)	-	-	-
Net cash provided by (used for) capital and related financing activities	(1,025,387)	-	-	-
Net increase (decrease) in cash and cash equivalents	(797,593)	1,245,376	(6,012)	(8,433)
Cash and cash equivalents, beginning of year	1,420,810	245,376	34,318	8,793
Cash and cash equivalents, end of year	$ 623,217	$ 1,490,752	$ 28,306	$ 360
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	$ (1,131,817)	$ 93,174	$ -	$ -
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation expense	617,435	-	-	-
Change in:				
Accounts receivable	154,938	16,717	38,821	2,638
Inventories	(17,937)	-	-	-
Prepaids	-	(154,290)	-	-
Accounts payable	(120,933)	(125,225)	(44,833)	(11,431)
Accrued liabilities	(184,298)	(916,876)	-	-
Accrued payroll	4,544	-	-	-
Due to other funds	-	-	-	360
Total adjustments	453,749	(1,179,674)	(6,012)	(8,433)
Net cash provided by (used for) operating activities	$ (678,068)	$ (1,086,500)	$ (6,012)	$ (8,433)

Insurance	Employee Sick and Vacation	Total
$ 17,880,569	$ 1,869,858	$ 21,590,522
(18,251,069)	-	(21,440,608)
(211,485)	(1,885,416)	(2,526,470)
(581,985)	(15,558)	(2,376,556)
-	-	905,862
3,125,000	-	5,456,876
3,125,000	-	6,362,738
-	-	180,147
-	-	(1,174,755)
-	-	(30,779)
-	-	(1,025,387)
2,543,015	(15,558)	2,960,795
583	15,558	1,725,438
$ 2,543,598	$ -	$ 4,686,233
$ (18,528)	$ -	$ (1,057,171)
-	-	617,435
(259,759)	-	(46,645)
-	-	(17,937)
259,639	-	105,349
(689,904)	-	(992,326)
124,684	(15,558)	(992,048)
1,883	-	6,427
-	-	360
(563,457)	(15,558)	(1,319,385)
$ (581,985)	$ (15,558)	$ (2,376,556)

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2012

	District Court-Agency	Current Tax Collection	Payroll
Assets			
Cash and cash equivalents	$ 95,755	$ 740,389	$ 308,017
Other receivables	-	-	-
Total assets	$ 95,755	$ 740,389	$ 308,017
Liabilities			
Accounts payable	$ 2,182	$ 497	$ 6,332
Accrued liabilities and other	-	-	301,685
Due to other governments	-	739,892	-
Deposits payable	93,573	-	-
Total liabilities	$ 95,755	$ 740,389	$ 308,017

Fire Insurance	Retirement System Administration	Housing Commission Administration	Total
$ 179,103	$ -	$ -	$ 1,323,264
-	287,599	300,000	587,599
$ 179,103	$ 287,599	$ 300,000	$ 1,910,863
$ -	$ -	$ 300,000	$ 309,011
179,103	-	-	480,788
-	287,599	-	1,027,491
-	-	-	93,573
$ 179,103	$ 287,599	$ 300,000	$ 1,910,863

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet
Component Units
June 30, 2012

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Assets				
Cash and cash equivalents	$ 122,473	$ 647,887	$ 161,194	$ 931,554
Receivables				
Property taxes - net	4,421	4,321	1,245	9,987
Other	-	2,860	-	2,860
Due from component units - advances	-	173,698	-	173,698
Restricted assets	1,039,017	-	-	1,039,017
Total assets	$ 1,165,911	$ 828,766	$ 162,439	$ 2,157,116
Liabilities				
Accounts payable	$ 400	$ -	$ -	$ 400
Due to other governments	122,084	170,096	53,279	345,459
Due to component units - advances	-	-	-	-
Deferred revenue	4,420	4,321	1,244	9,985
Total liabilities	126,904	174,417	54,523	355,844
Fund balances				
Restricted	1,039,007	654,349	107,916	1,801,272
Unassigned (deficit)	-	-	-	-
Total fund balances (deficit)	1,039,007	654,349	107,916	1,801,272
Total liabilities and fund balances (deficit)	$ 1,165,911	$ 828,766	$ 162,439	$ 2,157,116

Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
$ 283	$ 1,280,340	$ 200,817	$ 2,412,994
5,313	-	-	15,300
-	-	-	2,860
-	-	-	173,698
-	-	-	1,039,017
$ 5,596	$ 1,280,340	$ 200,817	$ 3,643,869
$ 1,015	$ 325	$ -	$ 1,740
3,583	-	200,817	549,859
173,698	-	-	173,698
5,313	-	-	15,298
183,609	325	200,817	740,595
-	1,280,015	-	3,081,287
(178,013)	-	-	(178,013)
(178,013)	1,280,015	-	2,903,274
$ 5,596	$ 1,280,340	$ 200,817	$ 3,643,869

CITY OF PONTIAC, MICHIGAN

Reconciliation
Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
Component Units
June 30, 2012

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Fund balances for component units	$ 1,039,007	$ 654,349	$ 107,916	$ 1,801,272
Amounts reported for *component units* in the statement of net assets are different because:				
Capital assets used in *governmental activities* are not financial resources, and therefore are not reported in the fund statements:				
Capital assets, net of depreciation	-	5,559,775	-	5,559,775
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.				
Deferred property taxes receivable	4,420	4,321	1,244	9,985
Certain liabilities, such as bonds payable, property tax settlements and compensated absences are not due and payable in the current period, and therefore are not reported in the funds.				
Accrued interest on bonds	(112,966)	(180,347)	-	(293,313)
Bonds payable	(23,465,000)	(25,112,710)	-	(48,577,710)
Unamortized discounts	252,693	810,203	-	1,062,896
Property tax settlements	(236,706)	-	-	(236,706)
Compensated absences	(22,647)	-	-	(22,647)
Net assets for component units	$ (22,541,199)	$ (18,264,409)	$ 109,160	$ (40,696,448)

Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
$ (178,013)	$ 1,280,015	$ -	$ 2,903,274
-	5,953,948	-	11,513,723
5,313	-	-	15,298
-	-	-	(293,313)
-	-	-	(48,577,710)
-	-	-	1,062,896
-	-	-	(236,706)
-	-	-	(22,647)
$ (172,700)	$ 7,233,963	$ -	$ (33,635,185)

Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Component Units
For the Year Ended June 30, 2012

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Revenue				
Taxes	$ 266,499	$ 1,558,598	$ 454,458	$ 2,279,555
Investment income	26,590	129,313	-	155,903
Contributions from primary government	1,700,057	733,394	-	2,433,451
Other revenue	127,373	-	-	127,373
Total revenue	2,120,519	2,421,305	454,458	4,996,282
Expenditures				
Commercial and industrial development	52,440	378,289	856,252	1,286,981
Debt service:				
Principal	2,340,000	210,000	-	2,550,000
Interest and fiscal charges	1,256,445	1,122,306	-	2,378,751
Total expenditures	3,648,885	1,710,595	856,252	6,215,732
Revenues over (under) expenditures	(1,528,366)	710,710	(401,794)	(1,219,450)
Other financing sources (uses)				
Refunding bond escrow agent payment	-	(3,467,306)	-	(3,467,306)
Net change in fund balances	(1,528,366)	(2,756,596)	(401,794)	(1,219,450)
Fund balances (deficit), beginning of year	2,567,373	3,410,945	509,710	6,488,028
Fund balances (deficit), end of year	$ 1,039,007	$ 654,349	$ 107,916	$ 5,268,578

Downtown Development Authority		Economic Development Corporation		Brownfield Redevelopment Authority			Total
$	300,360	$	-	$	47,171	$	2,627,086
	-		5,293		-		161,196
	-		-		49,439		2,482,890
	63,512		1,725		-		192,610
	363,872		7,018		96,610		5,463,782
	60,688		3,672		295,406		1,646,747
	-		-		-		2,550,000
	-		-		-		2,378,751
	60,688		3,672		295,406		6,575,498
	303,184		3,346		(198,796)		(1,111,716)
	-		-		-		(3,467,306)
	303,184		3,346		(198,796)		(4,579,022)
	(481,197)		1,276,669		198,796		7,482,296
$	(178,013)	$	1,280,015	$	-	$	2,903,274

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
Component Units
June 30, 2012

	Tax Increment Finance Authority			
	District 2	District 3	District 4	Total
Net change in fund balance - component units	$ (1,528,366)	$ (2,756,596)	$ (401,794)	$ (4,686,756)
Amounts reported for *component units* in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Transfer of capital assets from primary government	-	5,702,333	-	5,702,333
Depreciation expense	-	(142,558)	-	(142,558)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	(5,757)	(4,282)	(1,760)	(11,799)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				
Principal payments on long-term liabilities	2,340,000	210,000	-	2,550,000
Troubled debt restructuring	-	1,047,710	-	1,047,710
Payment to escrow agent	-	3,467,306	-	3,467,306
Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.				
Change in accrued interest on bonds and unamortization debt-related costs	(18,637)	(418,282)	-	(436,919)
Change in property tax settlements	(236,706)	-	-	(236,706)
Change in compensated absences	11,772	-	-	11,772
Change in net assets of component units	$ 562,306	$ 7,105,631	$ (403,554)	$ 7,264,383

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopmen t Authority	Total
	$ 303,184	$ 3,346	$ (198,796)	$ (4,579,022)
	-	-	-	5,702,333
	-	(175,116)	-	(317,674)
	(5,969)	-	-	(17,768)
	-	-	-	2,550,000
	-	-	-	1,047,710
	-	-	-	3,467,306
	-	-	-	(436,919)
	-	-	-	(236,706)
	-	-	-	11,772
	$ 297,215	$ (171,770)	$ (198,796)	$ 7,191,032

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City of Pontiac, Michigan

Year Ended
June 30, 2012

Single Audit Act Compliance

Rehmann
Business wisdom delivered.

CITY OF PONTIAC, MICHIGAN

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Rehmann

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

December 28, 2012

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, Michigan,* as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated December 28, 2012, which contained unqualified opinions on those financial statements. Our report includes a reference to other auditors. Our audit was conducted 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 U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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CITY OF PONTIAC, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants Cluster:				
2009 Program Year	14.218	Direct	B-09-MC-26-0009	$ 35,400
2010 Program Year	14.218	Direct	B-10 MC-26-0009	2,374,510
2011 Program Year	14.218	Direct	B-11 MC-26-0009	992,890
Neighborhood Stabilization Program I	14.218	Direct	B-08-MN-26-0009	1,976,759
				5,379,559
HOME Investment Partnerships	14.239	Direct	M-03-MC-26-0211	1,000,755
ARRA - Homelessness Prevention and Rapid Re-housing Program	14.257	Direct	S09-MY-26-0009	125,093
Total U.S. Department of Housing and Urban Development				6,505,407
U.S. Department of Justice				
Justice Assistance Grant Program Cluster:				
2009	16.738	MSP	2009-DJ-BX-0790	134,882
2010	16.738	MSP	2010-DJ-BX-1311	145,732
2011	16.738	MSP	2011-DJ-BX-3153	121,903
ARRA - 2009	16.804	MSP	2009-SB-B9-1863	533,554
Total U.S. Department of Justice				936,071
U.S. Department of Transportation				
Highway Planning and Construction:				
ARRA - Resurface, Rehabilitate and Restore Roadway:				
Walton Boulevard to City Limits	20.205	MDOT	104706A	104,325
Wayne Street	20.205	MDOT	104709A	27,283
Traffic Signal Upgrading:				
East Pike and Saginaw Street	20.205	MDOT	107379	(6,012)
Auburn and Sanford Street	20.205	MDOT	105039	51,177
MLK Widening Project	20.205	MDOT	49864C	(829)
Total U.S. Department of Transportation				175,944
U.S. Environmental Protection Agency				
Pontiac Creek Watershed Management Plan - Nonpoint Source Implementation Grant	66.460	MDEQ	2007-0143	(1,086)
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MDEQ	2F-00E751-01	367,978
Total U.S. Environmental Protection Agency				366,892
U.S. Department of Energy				
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Direct	DE-SC0002550	93,328
U.S. Department of Homeland Security				
Homeland Security Grant Program	97.067	OC	-n/a-	357
Total Expenditures of Federal Awards				$ 8,077,999

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Pontiac (the "City") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDEQ	Michigan Department of Environmental Quality
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
OC	County of Oakland, Michigan

Notes to Schedule of Expenditures of Federal Awards

4. SUBRECIPIENTS

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City's reporting entity. Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant/ Entitlement Grants Cluster	14.218	$ 1,563,540
Home Investment Partnerships Program	14.239	906,253
ARRA - Homelessness Prevention and Rapid Re-housing Program	14.257	113,387
		$ 2,583,180

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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 28, 2012

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, Michigan* (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 28, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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'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

Management of the City is responsible for establishing and maintaining effective 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 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 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 2012-FS-1, 2012-FS-2 and 2012-FS-4 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-FS-3, 2012-FS-5, 2012-FS-6, 2012-FS-7 and 2012-FS-8 to be significant deficiencies.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-FS-4.

We noted certain other matters that we reported to management of the City in a separate letter dated December 28, 2012.

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.

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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 28, 2012

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

Compliance

We have audited the City of Pontiac, Michigan's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' 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.

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 of Pontiac, Michigan'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 of Pontiac, Michigan's compliance with those requirements.

In our opinion, the City of Pontiac, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed 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 2012-SA-01 and 2012-SA-02.

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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-SA-01 and 2012-SA-02. 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.

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.

Rehmann Robson

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ no
Significant deficiency(ies) identified?	X yes	___ none reported
Noncompliance material to financial statements noted?	X yes	___ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ yes	X no
Significant deficiency(ies) identified?	X yes	___ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	X yes	___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/ Entitlement Grants Cluster
14.239	Home Investment Partnerships Program
16.738 & 16.804	Justice Assistance Grant Program Cluster
66.468	Capitalization Grants for Drinking 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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-1 – Material Audit Adjustments (repeat finding)

Finding Type. Material weakness in internal control 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. As a result, the following areas were initially misstated:

- Accounts payable and expenditures were understated in the general fund by approximately $92,000.
- Accounts receivable in various internal service funds was overstated by approximately $77,000.
- Accounts receivable in the water enterprise fund was understated by approximately $186,000, charges for services in the water enterprise fund was understated by approximately $102,000 and charges for services in the sewer enterprise fund was understated by approximately $84,000. The offsets to these adjustments were to the cash interfund accounts.
- Accounts payable and expenditures were overstated in the community development block grant special revenue fund by approximately $210,000.
- The allowance for uncollectible accounts in the sewer enterprise fund was understated and charges for services were overstated by $55,000.
- The allowance for uncollectible accounts in the water enterprise fund was understated and charges for services were overstated by $123,050.
- Long-term debt in the tax increment finance authority component unit was overstated by $935,000.
- The net other postemployment obligation in governmental activities was understated by approximately $8.1 million.
- The net other postemployment obligation in business-type activities was understated by approximately $659,000.
- Long-term debt in the tax increment finance authority component unit was understated by approximately $237,000.

Recommendation. We recommend that finance/administrative procedures be modified to ensure that all year-end adjustments are identified as part of the year end closing process and posted for financial reporting purposes.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

View of Responsible Officials. The City strives to ensure all material items are properly recorded in the financial statements at the time the books are closed and they are turned over to the auditors, but it is almost impossible to have no adjustments for a City of the size of Pontiac. Of 10 items noted by the auditors that required adjustment, 6 were a result of receivables or payables that were discovered subsequent to the books being closed and were not reported by the various departments to the Controller's office (as all payables are recorded by each department). The other 4 items do not relate to items in the fund based financial statements. These 4 items are schedules prepared for the auditors for inclusion in the financial statements. The City will review their year-end procedures related to the 10 items and work to eliminate the need for material year-end adjustments.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-2 – Capital Asset Records (repeat finding)

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 $105,474,000 recorded on the City's books for other 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 estimated.

View of Responsible Officials. The Controller's office has schedules that support the balances in the City's general ledger; however, the schedules are manually prepared from years of manual historical schedules prepared by City staff and former auditors that may not be 100 percent complete. Accounting standards recommend a physical inventory annually or at least every few years. The City has not had a physical inventory in over ten years. The City does not have the internal resources to perform a physical inventory. The estimated cost to have an outside party perform a physical inventory is between $30 and $60 thousand dollars. The City is currently evaluating all significant assets held to determine what will be disposed of or sold. After this process is complete, the City will perform a physical inventory.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-3 – Construction Deposits Payable (repeat finding)

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 Engineering Department does not maintain a master listing of all outstanding construction deposits collected and due back to developers and/or residents.

Cause. The Engineering Department maintains records for each developer and/or resident that has paid a deposit and has the ability to locate the amount owed to each individual by looking up the individual's account. The Engineering 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 $422,000. However, this general ledger amount is not periodically reconciled to the records maintained by the Engineering Department. This lack of reconciliation leads to a higher risk that errors will not be prevented or detected.

Recommendation. We recommend that the Engineering Department comprise a detail of the construction deposits collected and to whom these deposits are due back.

View of Responsible Officials. The City's engineering department is in the process of preparing a master listing of the outstanding construction deposits to determine the correct balance according to their individual files. Once the master listing is complete, the Controller's office will reconcile the balance to the general ledger. The City has recently implemented procedures that will utilize the recently purchased software to track, monitor, and process construction deposits once the master listing has been established.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-4 – Failure to Timely Disburse Tax Collections (repeat finding)

Finding Type. Material noncompliance; material weakness in internal controls over financial reporting.

Criteria. The City is responsible for the collection of certain property taxes and remitting a portion of these amounts to other governmental entities within a reasonable amount of time.

Condition. The City has collected PILOT payments that are due to other governmental entities. Amounts were collected in 2008, 2009 and 2010 that have not yet been remitted to the appropriate unit of government.

Cause. The City has not assigned a specific individual this responsibility.

Effect. There is a liability on the City's books for approximately $1,099,000 which has not been remitted timely to the appropriate units of government to which it is due.

Recommendation. We recommend that the Treasurer's Department implement procedures to ensure that identified deficiencies are corrected.

View of Responsible Officials. The City's Treasurer's office bills, collects and distributes the PILOT payments on an annual basis. The 2011 PILOT collections were billed, collected and distributed timely to the appropriate units of government however; the 2008, 2009 and 2010 PILOT collections remain undistributed. The Treasurer's office will ensure the 2008, 2009 and 2010 PILOT collections are distributed prior to the 2013 year-end as cash flow permits.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-5 – Independent Approval of Journal Entries (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

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

Condition. The journal entries prepared by the Controller's office are posted in the general ledger by the preparer without an independent review.

Cause. The City does not have sufficient controls in place to ensure that all journal entries are approved by an appropriate member of management, independent of the preparer.

Effect. While we are not aware of any actual misstatements caused by this condition, the City was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. We recommend that the City establishes procedures requiring independent review and approval for all journal entries.

View of Responsible Officials. Given the limited size of the overall accounting department and significant volume of manual journal entries (thousands, annually), the City has concluded not to have the finance director review and sign all Controller's office manual journal entries. The City recently has purchased and implemented new software citywide that should significantly reduce the number of manual journal entries. The City will review its process for journal entry approval in conjunction with new software.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-6 – Court Bonds Payable (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. The Court uses an agency fund to account for bonds held on behalf of outside parties. Accordingly, the Court is required to keep accurate subsidiary records of the amounts held in this liability account. This account should be analyzed and reconciled on a regular basis (e.g. monthly or quarterly).

Condition. We requested detail for the bonds payable account in the Court's agency fund. The Court was able to provide subsidiary records, however, these records did not agree with the amount recorded on the City's general ledger. We were able to substantiate the offsetting cash balances in its entirety; however it was noted that this general ledger account was not periodically reconciled.

Cause. The Court does not have an established policy requiring the periodic reconciliation of this balance sheet account.

Effect. As a result of the condition, the City is exposed to an increased risk that misstatements, whether through error or fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in agency funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds. Accordingly, it is especially important that these funds be reconciled regularly. While the related cash balances were reconciled, this only confirms that the amounts actually on hand, not the balances that should be on hand.

Recommendation. We recommend that the Court establish procedures to ensure that all liability accounts accounted for in agency funds be analyzed and reconciled on a regular basis.

View of Responsible Officials. The City will meet with the court administrator and Chief Judge to review current procedures and the City will make recommendations to address the deficiency of controls.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-7 - Review of Spreadsheets

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for establishing effective internal controls to prevent or detect misstatements to the financial statements. It is customary to utilize various spreadsheets outside the accounting software to perform calculations and to provide support for various account balances and journal entries. The City should have a system in place to ensure that all such spreadsheets are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition. There is no independent review of significant spreadsheets used to support various general ledger account balances and journal entries.

Cause. The City does not have sufficient controls in place to ensure that all significant spreadsheets are approved by an appropriate member of management, independent of the preparer.

Effect. We identified several errors on various spreadsheets, some of which resulted in material audit adjustments:

- Beginning balances on the spreadsheet used to calculate and support the adjustments related to other postemployment benefit obligations were incorrect resulting in a $4.8 million audit adjustment.
- Assets with a combined cost of approximately $70,000 were excluded from the original spreadsheets provided to support the amounts recorded for capital assets.

Recommendation. We recommend that the City establish procedures requiring independent review and approval for all significant spreadsheets utilized in determining amounts used in financial reporting.

View of Responsible Officials. The City has purchased and will be implementing new software that will be utilized for tracking capital assets and depreciation. The City will also implement a process to utilize the current software to track long term debt balances which should eliminate the need to rely on manually updated spreadsheets.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-8 - Water and Sewer Receivables

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 subsidiary ledger maintained for water and sewer utility billings contains numerous receivable amounts that are over 6 months old. In addition, there are numerous credit balances representing overpayments which have been made by customers.

Cause. **T**he City should periodically review the subsidiary ledgers to ensure that older receivables have been properly moved to the tax roll in accordance with City policy.

Effect. Water and sewer receivable accounts include amounts over 6 months old that should have been placed on the tax rolls. In addition, there is approximately $323,000 in credit balances included in receivables which should be reviewed and a determination should be made for the proper handling of these amounts.

Recommendation. We recommend that the City periodically review the subsidiary ledgers for the water and sewer utility receivables and follow up on older receivables and credit balances.

View of Responsible Officials. Subsequent to year end, the City entered into an agreement with Oakland County Water Resource Commission (WRC) to sell the City's wastewater treatment plant to WRC which also included the transferring of the City's Water and Sewer operations. The need to accrue, maintain, and remit credit balances to customers will not be the responsibility of the City's water and sewer department next year. The City did review the accounts with credit balances and determined only 5% of the total balance was related to active accounts and the potential to remit a significant credit balance in the near future was not likely.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-01 - Period of Availability

Finding Type. Immaterial noncompliance; Significant deficiency in internal controls.

Program. Community Development Block Grant Program Entitlement Cluster; U.S. Department of Housing and Urban Development; CFDA # 14.218; direct program; project numbers B-09-MC-26-2009, B-10-MC-26-0009, B-11-MC-26-0009 and B-08-MN-26-0009.

Criteria. Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* states that for a cost to be allowable under federal awards, it must be determined in accordance with generally accepted accounting principles.

Condition. Invoices recorded as liabilities at year end were actually 2012-2013 fiscal year expenditures.

Cause. Preventative and detective controls related to the proper cutoff of year-end liabilities were not operating effectively.

Effect. Expenditures initially reported in the community development block grant fund were overstated by approximately $210,000 which resulted in the schedule of expenditures of federal awards also being overstated by the same amount. These adjustments were approved and posted by management.

Questioned Cost. None.

Recommendation. Identifying potential cutoff issues should be part of management's review during the period end closing process.

View of Responsible Officials. This finding occurred due to a misunderstanding of the grant department management's internal goal to have all federal funds expended by the end of the fiscal year. However, the City will re-emphasize controls within the accounts payable department for reviewing invoices and supporting documentation for proper period accounting before processing the payment.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-02 - Procurement - Vendor Contracts

Finding Type. Immaterial noncompliance; Significant deficiency in internal controls.

Program. Community Development Block Grant Program Entitlement Cluster; U.S. Department of Housing and Urban Development; CFDA # 14.218; direct program; project numbers B-09-MC-26-2009, B-10-MC-26-0009, B-11-MC-26-0009 and B-08-MN-26-0009.

Criteria. Local governments are required to follow their own procurement procedures provided they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Condition. During the year, the City conducted business with certain vendors absent a signed contract. In other instances, it was noted that the City conducted business with certain vendors under contracts that had been signed by a City employee who did not have the sole authority to enter into such contracts.

Cause. This condition is the result of a lack of sufficient controls over the City's procurement process.

Effect. As a result of this condition, the City was not following its procurement procedures as required.

Questioned Cost. None.

Recommendation. We recommend that management review its procurement policies and implement monitoring procedures to ensure they are being properly implemented.

View of Responsible Officials. The employee in question failed to follow proper procurement procedures and lied to his supervisors. Upon discovery by management during a regular monitoring of expenditures that demonstrated that proper procurement policies were not followed, the employee was terminated. Further investigation identified other issues with the employee and a report was made to the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General with a copy provided to the City’s auditors.

Summary Schedule of Prior Federal Award Audit Findings
For the Year Ended June 30, 2012

2011-10 - Cash Management - Cash Requests
Highway Planning and Construction Cluster (CFDA # 20.205)
Clean Water State Revolving Funds (CFDA # 66.458)
Drinking Water State Revolving Funds (CFDA # 66.468)
Finding adequately resolved.

2011-11 - Reporting - 1512 Reports
Clean Water State Revolving Funds (CFDA # 66.458)
Drinking Water State Revolving Funds (CFDA # 66.468)
Finding adequately resolved.

2011-12 - Reporting - Reimbursement Requests
Highway Planning and Construction Cluster (CFDA # 20.205)
Finding adequately resolved.

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114

December 28, 2012

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 of Pontiac* (the "City") for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012. 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 April 13, 2012, 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.

Other Information in Documents Containing Audited Financial Statements

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

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.

Significant Results of the Audit

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. 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. In addition, management does not have detailed records of its capital assets, and as a result, estimates are used to account for the deletion and depreciation of individual assets.

- 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.

- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

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, except that certain information was not available timely.

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. Attachment B to this letter summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Questioned Costs issued as part of our report on Single Audit Compliance.

Upcoming Changes in Accounting Standards

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

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

We have requested certain representations from management that are included in the attached management representation letter dated December 28, 2012.

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 each year prior to retention 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 retention.

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,

Rehmann Robson

Attachment A - Consideration of Internal Control Over Financial Reporting
For the June 30, 2012 Audit

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, 2012, and have issued our report thereon dated December 28, 2012. We did not audit 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. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate to 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, are based solely on the report of other auditors.

In planning and performing our audit 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 issued as part of our report on Single Audit Act compliance.

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 issued as part of our report on Single Audit Act compliance.

Other Matters

Unprocessed Cash Receipts at the Court. While performing a walkthrough of internal controls at the Court, we noted a significant number of unprocessed checks related to garnishment claims. The checks are restrictively endorsed when received; however, there is a significant time lag between when these claims are received and when they are processed. Management should review procedures related to the processing of these garnishment claims and consider implementing more efficient procedures to enhance internal controls over this process.

Attachment A - Consideration of Internal Control Over Financial Reporting
For the June 30, 2012 Audit

Stale Checks (repeat). During our testing of bank reconciliations, it came to our attention that there are a significant number of checks that have been outstanding for more than one year. The City should follow the State of Michigan's Uniform Unclaimed Property Act for checks that have been outstanding for more than one year.

Petty Cash Reconciliation. The City has approximately $15,000 recorded in petty cash. These accounts are not being reconciled and many of them do not have a custodian assigned. Some of these petty cash amounts belong to departments that have since been outsourced by the City. Management should assign a custodian to each petty cash fund and implement procedures to ensure that these funds are being reconciled periodically. In addition, petty cash funds related to departments that have been outsourced should be eliminated.

CITY OF PONTIAC

Attachment B - Schedule of Adjustments Passed (SOAP)
For the June 30, 2012 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
Governmental activities					
Long-term debt understated related to tax refund due	$ -	$ (102,375)	$ -	$ -	$ (102,375)
Business-type activities					
Water fund					
Reclass of customer overpayments	$ (177,905)	$ (177,905)	$ -	$ -	$ -
Sewer fund					
Reclass of customer overpayments	(145,558)	(145,558)	-	-	-
Total business-type activities	$ (323,463)	$ (323,463)	$ -	$ -	$ -

CITY OF PONTIAC

Attachment C – Upcoming Changes in Accounting Standards
For the June 30, 2012 Audit

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

GASB 63 ■ Deferred Inflows, Outflows, and Net Position
Effective 12/15/2012 (your FY 2013)

This standard will introduce new terminology to the balance sheet by creating a category of quasi-assets called "deferred outflows", and a category of quasi-liabilities called "deferred inflows". As a result, the term "net assets" will no longer be used, and is replaced by the more generic term "net position". Essentially, deferred inflows and outflows will be used to report transactions that occurred prior to year end that relate to revenues and expenses (inflows and outflows) of future periods. The format of the new "statement of net position" will be presented as *assets* + *deferred outflows* – *liabilities* – *deferred inflows* = *net position*. Net position will be further categorized into *net investment in capital assets*, *restricted*, and *unrestricted* amounts. Fund balance of governmental funds will be unaffected, and governmental funds will continue to report a traditional balance sheet (*assets* = *liabilities* + *fund balance).*

GASB 64 ■ Derivative Instruments (an Amendment of GASB 53)
Effective 06/15/2011 (your FY 2011)

Under certain circumstances, a government is permitted to enter into swap agreements to "hedge" or protect against the risk of loss. The government is required to recognize the income statement impact of a hedge upon its termination. This standard addresses whether amending an existing swap agreement or entering into a new swap agreement qualifies as a termination for accounting purposes.

Statement No. 64 is already in effect. However, since the City does not hold any derivative instruments, this standard had no impact on its financial reporting.

GASB 65 ■ Items Previously Reported as Assets and Liabilities
Effective 12/15/2013 (your FY 2014)

This standard builds on the new terminology introduced in GASB 63. Certain items previously reported as assets and liabilities will now be classified as deferred inflows and outflows, while other items will no longer be carried on the balance sheet. As such, a restatement of beginning equity may be required to write off balances from previous years that no longer meet the definition for presentation on the balance sheet. The term "deferred revenue" will no longer be used by governments for any purpose. While GASB 65 is not required to be implemented until one year after GASB 63, we recommend that they be adopted together, as the standards complement one another.

The following table provides examples of balances affected by this standard:

Item	Pre-GASB 65	Post-GASB 65
Loss/gain on refunding of bonds payable	Liability/asset ("deferred loss/gain on refunding")	Deferred outflow/inflow
Property taxes levied prior to the year they are intended to finance	Liability ("deferred revenue")	Deferred inflow
Grant funds received but all grant requirements not met	Provider: asset ("advance to…") Recipient: liability ("advance from…")	No change
Grant funds received and all grant requirements met, but advance is for the following program year	Provider: asset ("advance to…") Recipient: liability ("advance from…")	Provider: deferred outflow Recipient: deferred inflow
Bond issuance costs	Asset ("deferred bond issuance costs" or "deferred bond charges")	Expense in year incurred
Initial direct costs of operating leases	Asset ("prepaid")	Expense in year incurred
Unexpended proceeds of expenditure-driven grants; charges for services collected in advance	Liability ("deferred revenue")	Liability ("unearned revenue")
Revenues not "available" in governmental funds because they are not collected soon enough after year-end	Liability ("deferred revenue")	Deferred inflow

GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)
Effective 12/15/2013 (your FY 2014)

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the City at this time.

GASB 67 ■ Financial Reporting for Pension Plans
Effective 06/15/2014 (your FY 2014)

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

Attachment C – Upcoming Changes in Accounting Standards
For the June 30, 2012 Audit

GASB 68 ■ Accounting and Financial Reporting for Pensions
Effective 06/15/2015 (your FY 2015)

This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

■ ■ ■ ■ ■

CITY OF PONTIAC
OFFICE OF THE EMERGENCY FINANCIAL MANAGER
LOUIS H. SCHIMMEL

47450 Woodward Avenue
Pontiac, Michigan 48342
Telephone: (248) 758-3133
Fax: (248) 758-3292

December 28, 2012

Rehmann Robson
1500 W. Big Beaver, 2nd Floor
Troy, MI 48084

We are providing this letter in connection with your audit of the financial statements of the ***City of Pontiac*** as of *June 30, 2012* and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of **December 28, 2012**, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all—

    a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

    b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements

taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have a process to track the status of audit findings and recommendations.

10. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

13. The following, if any, have been properly recorded or disclosed in the financial statements:

   a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

      For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

   b. Guarantees, whether written or oral, under which the City is contingently liable.

   c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—

   a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance, other than those disclosed in the notes to the financial statements.

b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

16. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

17. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

20. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

21. The financial statements properly classify all funds and activities.

22. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

23. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balances (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

24. Provisions for uncollectible receivables have been properly identified and recorded.

25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

28. Special and extraordinary items, if any, are appropriately classified and reported.

29. Deposits and investments are properly classified as to risk and are properly disclosed.

30. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

31. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

32. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.

33. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

34. With respect to the other supplementary information on which an in-relation-to opinion is issued, we acknowledge our responsibility for presenting the other supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the other supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the other supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

35. We have evaluated the City's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.

36. With respect to federal award programs:

    a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.

    b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

    d. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

    e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.

    f. We are responsible for understanding and complying with, and except as noted in your report have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

g. We are responsible for establishing and maintaining, and, except as noted in your report, have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Except as noted in your report, we believe the internal control system is adequate and is functioning as intended.

h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

i. We have received no requests from a federal agency to audit one or more specific programs as a major program.

j. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards.

k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*

n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

o. We have made available to you all documentation related to compliance with the direct and material requirements, including information related to federal program financial reports and claims for advances and reimbursements.

p. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

q. There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

r. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.

s. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

t. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

u. We have monitored sub recipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

v. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of sub recipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that sub recipients have taken the appropriate and timely corrective action on findings.

w. We have considered the results of sub recipient audits and have made any necessary adjustments to our books and records.

x. We have charged costs to federal awards in accordance with applicable cost principles.

y. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.

aa. We are responsible for preparing and implementing a corrective action plan for each audit finding.

37. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Louis H. Schimmel

Louis H. Schimmel

Louis Schimmel

Emergency Financial Manager

John Naglick

John Naglick

Director of Finance

Name:

Carl A. Johnson

Controller