City of Pontiac, Michigan

Year Ended June 30, 2018

Financial Statements

Rehmann
Business wisdom delivered.

CITY OF PONTIAC, MICHIGAN

Table of Contents

Table of Contents

■ ■ ■ ■ ■

Rehmann Robson

1500 W. Big Beaver Rd.
2nd Floor
Troy, MI 48084
P: 248.952.5000
F: 248.952.5750
rehmann.com

INDEPENDENT AUDITORS' REPORT

December 19, 2018

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac, Michigan* (the "City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System VEBA, and Police and Fire Retirement System which represent 99.8%, 100% and 100%, respectively, of the assets, net position, and additions of the fiduciary funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the General City Employees' Retirement System, the Police and Fire Retirement System VEBA and the Police and Fire Retirement System 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 VEBA and the Police and Fire Retirement System were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontiac, Michigan, as of June 30, 2018, 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.

Implementation of GASB Statement No. 75

As described in Note 21, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* in the current year. Accordingly, beginning net position of governmental activities, business-type activities and the parking enterprise fund were restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 19, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rehmann Robson LLC

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Pontiac (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here and contact City Administration at 248-758-3322 if you have any questions.

Financial Highlights

·	Total net position	$253,589,651
·	Change in total net position	1,759,853
·	Restatement of net position due to implementation of GASB 75	(10,948,028)
·	Fund balances, governmental funds	38,096,315
·	Change in fund balances, governmental funds	1,957,998
·	Unassigned fund balance, general fund	13,793,924
·	Change in fund balance, general fund	285,427
·	Long-term debt outstanding	16,868,636
·	Change in long-term debt	6,834,205

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Under the City budget ordinance, the City is required to adopt a two-year budget. A budgetary comparison schedule has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget. Beginning in fiscal year 2018, the City is now adopting a three year balanced budget and receiving the Government Finance Officers Association award for Distinguished Budget Presentation.

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

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

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

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

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

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

Government-wide Overall Financial Analysis

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	$ 293,063,859	$ 253,417,263	$ 5,066,635	$ 4,653,789	$ 298,130,494	$ 258,071,052
Capital assets, net	89,438,932	87,175,421	9,857,616	10,422,476	99,296,548	97,597,897
Total assets	382,502,791	340,592,684	14,924,251	15,076,265	397,427,042	355,668,949
Deferred outflows of resources	2,412,557	35,187,542	-	296,911	2,412,557	35,484,453
Liabilities						
Current and other liabilities	107,948,776	115,793,427	994,666	820,250	108,943,442	116,613,677
Long-term debt outstanding	16,868,636	10,034,431	-	-	16,868,636	10,034,431
Total liabilities	124,817,412	125,827,858	994,666	820,250	125,812,078	126,648,108
Deferred inflows of resources	20,256,532	1,711,437	181,338	16,031	20,437,870	1,727,468
Net position:						
Investment in capital assets	89,438,932	87,175,421	9,857,616	10,422,476	99,296,548	97,597,897
Restricted	241,993,682	237,992,952	2,251,608	2,250,758	244,245,290	240,243,710
Unrestricted (deficit)	(91,591,210)	(76,927,442)	1,639,023	1,863,661	(89,952,187)	(75,063,781)
Total net position	$ 239,841,404	$ 248,240,931	$ 13,748,247	$ 14,536,895	$ 253,589,651	$ 262,777,826

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $253,589,651 at the close of the most recent fiscal year. $99,296,548 of the City's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure). The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the City's net position, $244,245,290, represents resources that are subject to external restrictions on how they may be used. The remaining balance of ($89,952,187) is unrestricted and could be used to meet the government's ongoing obligations to its citizens and creditors.

The City's overall net position decreased by $9,188,175 from the prior fiscal year. The reasons for the overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. During the current fiscal year, net position for governmental activities, before the implementation of GASB 75 as described below, increased $2,220,674 from the prior fiscal year for an ending balance of $239,841,404. This increase is primarily due to the surpluses generated in the local streets and sanitation funds.

Management's Discussion and Analysis

During fiscal year 2018, the change in the net pension asset, liability, and related deferred inflows and outflows of the pension systems (general employee, and police and fire, respectively) increased a net total of $34,040.

As of the beginning of the 2018 fiscal year, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB),* for the City's two OPEB plans. As a result, beginning net position of governmental activities was restated by ($10,620,201). During fiscal year 2018, activity in these two OPEB plans reduced the overall OPEB liability, which contributed to a net increase of $3,185,468 in the City's overall net position. A majority of this increase was attributable to the Police and Fire Retirement VEBA, which reported an increase in plan fiduciary net position of $2,526,309.

After the end of the fiscal year, the City has successfully negotiated a settlement with the plaintiffs in regards to a lawsuit against the City related to the Phoenix Center parking structure. Per the terms of the settlement, as of June 30, 2018 the City has recorded a government-wide liability for $7,350,000, of which $4,550,000 is payable by the City in the next fiscal year. MMRMA has approved a claim to cover $1,000,000 of the settlement. The remaining $2,800,000 will be payable over the next 4 years.

Business-type activities. The City's business-type activities consists of the parking fund. The City owns the Phoenix Center parking structure, which was presently the subject of litigation at June 30, 2018. During the current fiscal year, net position for business-type activities decreased $460,821 from the prior fiscal year for an ending balance of $13,748,247. This is the result of depreciation of capital assets of $564,860 and excess legal services that exceeded the projected budget by approximately $60,000.

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues:						
Charges for services	$ 4,339,774	$ 4,209,249	$ 15,128	$ 90,971	$ 4,354,902	$ 4,300,220
Operating grants	12,268,135	10,289,906	164,925	-	12,433,060	10,289,906
Capital grants	1,972,784	2,582,654	-	-	1,972,784	2,582,654
General revenues:						
Property taxes	11,904,598	11,088,160	-	-	11,904,598	11,088,160
Income taxes	13,152,028	13,493,026	-	-	13,152,028	13,493,026
Unrestricted state shared revenues	9,791,923	9,619,180	-	-	9,791,923	9,619,180
Unrestricted investment earnings	327,058	171,057	18,568	14,067	345,626	185,124
Cable franchise fees	550,765	579,222	-	-	550,765	579,222
Gain on sale of assets	-	-	-	99,083	-	99,083
Total revenues	54,307,065	52,032,454	198,621	204,121	54,505,686	52,236,575

continued…

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Expenses:						
General government	$ 9,326,686	$ 20,484,864	$ -	$ -	$ 9,326,686	$ 20,484,864
Public safety	28,348,986	28,122,205	-	-	28,348,986	28,122,205
Public works	12,087,764	18,552,300	-	-	12,087,764	18,552,300
Community development	1,315,867	2,415,431	-	-	1,315,867	2,415,431
Community and human services	411,864	365,979	-	-	411,864	365,979
Recreation and culture	595,224	470,280	-	-	595,224	470,280
Parking	-	-	659,442	1,232,665	659,442	1,232,665
Total expenses	52,086,391	70,411,059	659,442	1,232,665	52,745,833	71,643,724
Change in net position	2,220,674	(18,378,605)	(460,821)	(1,028,544)	1,759,853	(19,407,149)
Net position beginning of year	248,240,931	266,619,536	14,536,895	15,565,439	262,777,826	282,184,975
Restatement for implementation of GASB 75	(10,620,201)	-	(327,827)	-	(10,948,028)	-
End of year	$ 239,841,404	$ 248,240,931	$ 13,748,247	$ 14,536,895	$ 253,589,651	$ 262,777,826

concluded.

Financial Analysis of the City's Funds

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

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

At June 30, 2018, the City's governmental funds reported combined fund balances of $38,096,315 an increase of $1,957,998 in comparison with the prior year. Approximately 28% of this amount, $10,593,924, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable, restricted, committed or assigned to indicate that it is 1) not in a spendable form ($69,103), 2) restricted for particular purposes ($20,509,764), 3) committed for particular purposes ($3,373,524), or 4) assigned for particular purposes ($3,550,000).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was $10,593,924, while total fund balance increased to $17,359,202. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 35% of the total general fund expenditures, while total fund balance represents approximately 57% of that same amount.

The fund balance of the City's general fund for fiscal year 2018 was $17,359,202, an increase of $285,427 from the prior fiscal year. The increase was mainly due to the City collecting $174,632 additional income tax receipts, net of refunds, as compared to prior year. Other revenue sources that increased compared to prior year were the personal property tax exemption reimbursement and state shared revenue ($172,743).

The major street fund, a major fund, had a $154,222 decrease in fund balance during the current fiscal year which decreased the overall fund balance to $2,663,403. This is a result of one time additional expenditures on capital road projects as compared to prior year. Major road projects for fiscal year 2018 were Orchard Lake Road and North Saginaw Street.

The local street fund, a major fund, had a $1,670,164 increase in fund balance during the current fiscal year which increased the overall fund balance to $5,933,352. The increase in fund balance was caused by the City incurring less expenditures than expected for road projects. The Local Streets Fund also received additional revenue from Public Act 82 during the year. Major road projects for fiscal year 2018 were Michigan and Terry.

The sanitation fund, a major fund, had a $516,114 increase in fund balance during the current fiscal year which increased the overall fund balance to $6,215,848. The increase in fund balance was caused by the City incurring less expenditures for sanitation services.

The district court fund, a major fund, had a $1,429 increase in fund balance during the current fiscal year which increased the fund balance to $2,093. This increase was due to the City receiving approximately $540,000 additional funds transferred in from the General Fund then in the previous year.

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

Net position of the parking fund at the end of the fiscal year was $13,748,247. The total decrease in net position for the proprietary funds was $460,821 (parking fund is the only propriety fund of the City). This was primarily caused by depreciation of capital assets of $564,860.

General Fund Budgetary Highlights

Original budget compared to final budget. Over the course of the year, the City amended the budget twice to take into account events during the year. The significant portion of which was for use of unused appropriations for capital outlay from the previous fiscal year.

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

- Total revenues exceeded the final budget by $507,328 which is mostly due to property tax collections exceeding the final budget estimates and income tax collections exceeding final budget estimates by $502,999. Property tax chargebacks were less than anticipated by $834,168 causing actual revenue to be more than budget. Finally, the City exceeded the final budget estimates for State Shared Revenue by $315,781.

- Total expenditures came in $2,500,437 less than budgeted. Significant savings resulted from less than anticipated expenditures for the following:
  - General Government personnel expenditures were less than anticipated due to vacant positions unfilled as of June 30, 2018.
  - Blight court was not constituted during the fiscal year as anticipated.
  - TIFA contributions from the general fund were less than budgeted due to higher than anticipated property tax capture.
  - Community development Wade Trim expenditures were less than anticipated.
  - Parks and grounds maintenance expenditures were less than budgeted due to milder than normal winter conditions.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to $99,296,548 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, vehicles, and infrastructure.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 25,105,058	$ 25,105,058	$ 3,042,537	$ 3,042,537	$ 28,147,595	$ 28,147,595
Construction in progress	1,589,687	2,533,927	-	-	1,589,687	2,533,927
Streets and bridges	61,533,603	58,070,026	-	-	61,533,603	58,070,026
Buildings and improvements	684,336	784,320	6,815,079	7,379,939	7,499,415	8,164,259
Machinery and equipment	252,195	319,940	-	-	252,195	319,940
Vehicles	71,182	141,719	-	-	71,182	141,719
Land improvements	202,871	220,431	-	-	202,871	220,431
Total	$ 89,438,932	$ 87,175,421	$ 9,857,616	$ 10,422,476	$ 99,296,548	$ 97,597,897

Additional information on the City's capital assets can be found in Note 5 of the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total indebtedness of $16,868,636.

The City's total indebtedness increased by $6,834,205 during the current fiscal year primarily due to the Phoenix Center Settlement which added $7,350,000 in debt.

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

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation for the City is approximately $67.4 million.

Additional information on the City's long-term debt can be found in Note 7 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The City's largest source of revenue is local income tax. Income tax revenue continues to outpace budget assumptions. The City's second largest source of revenue is from City, Village, and Township revenue sharing. City property tax collections are the third largest source of revenue for Pontiac. The City has projected in its budgets for both ensuing fiscal years that nearly all of the uncollected property taxes returned to the County Treasurer will be charged back to the City.

- Significant new construction projects are in the process of being developed in the City, mainly funded by the gas and weight tax and a prior year transfer from the general fund's accumulated fund balance.

- Charges for general liability insurance are proving to be less than anticipated as the City continues to settle outstanding lawsuits or prevail at levels less than anticipated. The number of lawsuits filed against the City has decreased significantly from several years ago.

- Because of improving economic conditions, sales prices in the housing market are steadily increasing.

- The City is significantly reducing the amount of dilapidated housing units in the City through a strong demolition program of dangerous structures.

Management's Discussion and Analysis

Effective September 1, 2013, the City received permission from the State Treasurer to temporarily modify collective bargaining agreements by eliminating the City's responsibility to provide and fund health insurance, life insurance, optical insurance, hearing insurance, and dental insurance benefits for its retirees for two years or the period of receivership, whichever is longer. A group of retirees sued the City and sought a temporary restraining order, which was denied by the federal District Court, but later remanded after a hearing by the full 6th Circuit Court of Appeals. In addition, the City received permission from the State Treasurer to temporarily suspend contributions to the Police and Fire Retiree Prefunded Group Health and Insurance Trust during the period of receivership. This action is also subject of litigation (see Note 17). As of November 2018, the City and the Retirees Association (CPREA) have entered into a tentative settlement agreement (that was approved by the Pontiac City Council and District Court) and if approved by IRS, will resolve the City's obligation to provide health insurance to current and future retirees.

The City plans to use $3,550,000 of its unassigned fund balance in the general fund for the 2018-19 fiscal year. The purpose for the use of this fund balance is to pay the amount due related to the Phoenix Center settlement.

Requests for Information

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

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Statement of Net Position
June 30, 2018

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Assets				
Cash and investments	$ 40,729,296	$ 2,630,072	$ 43,359,368	$ 558,881
Receivables, net	8,991,100	3,617	8,994,717	9,864
Other assets	4,115,399	-	4,115,399	-
Restricted assets	2,428,733	-	2,428,733	-
Capital assets not being depreciated	26,694,745	3,042,537	29,737,282	-
Capital assets being depreciated, net	62,744,187	6,815,079	69,559,266	-
Net pension asset	236,799,331	2,432,946	239,232,277	-
Total assets	382,502,791	14,924,251	397,427,042	568,745
Deferred outflows of resources				
Deferred charge on refunding	-	-	-	554,349
Deferred pension amounts	2,412,557	-	2,412,557	-
Total deferred outflows of resources	2,412,557	-	2,412,557	554,349
Liabilities				
Accounts payable and accrued liabilities	7,420,290	5,162	7,425,452	242,360
Long-term liabilities:				
Due within one year	5,652,777	-	5,652,777	1,360,000
Due in more than one year	11,215,859	-	11,215,859	19,790,000
Financial guarantee	-	-	-	4,020,483
Net pension liability (due in more than one year)	15,005,003	-	15,005,003	-
Net other postemployment benefit liability (due in more than one year)	85,523,483	989,504	86,512,987	-
Total liabilities	124,817,412	994,666	125,812,078	25,412,843
Deferred inflows of resources				
Deferred pension amounts	18,896,162	181,338	19,077,500	-
Deferred other postemployment benefit amounts	1,360,370	-	1,360,370	-
Total deferred inflows of resources	20,256,532	181,338	20,437,870	-
Net position				
Investment in capital assets	89,438,932	9,857,616	99,296,548	-
Restricted for:				
Roads	9,466,729	-	9,466,729	-
Drug enforcement	232,100	-	232,100	-
Capital projects	2,806,399	-	2,806,399	-
Sanitation	4,066,542	-	4,066,542	-
Senior activities	971,823	-	971,823	-
Community development	30,335	-	30,335	-
Home buyers assistance	3,638	-	3,638	-
Cable television	1,166,125	-	1,166,125	-
Telecommunications	58,105	-	58,105	-
Building Inspection	437,842	-	437,842	-
Pension benefits	222,754,044	2,251,608	225,005,652	-
Unrestricted (deficit)	(91,591,210)	1,639,023	(89,952,187)	(24,289,749)
Total net position	$ 239,841,404	$ 13,748,247	$ 253,589,651	$ (24,289,749)

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

Statement of Activities

For the Year Ended June 30, 2018

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	$ 9,326,686	$ 1,548,152	$ 2,166,193	$ -	$ (5,612,341)
Public safety	28,348,986	266,065	2,511,388	-	(25,571,533)
Public works	12,087,764	2,339,939	7,199,488	1,827,041	(721,296)
Community development	1,315,867	158,928	371,409	145,743	(639,787)
Community and human services	411,864	-	-	-	(411,864)
Recreation and culture	595,224	26,690	19,657	-	(548,877)
Total governmental activities	52,086,391	4,339,774	12,268,135	1,972,784	(33,505,698)
Business-type activities -					
Parking fund	659,442	15,128	164,925	-	(479,389)
Total primary government	$ 52,745,833	$ 4,354,902	$ 12,433,060	$ 1,972,784	$ (33,985,087)
Component units					
Tax Increment Financing Authority	$ 1,825,496	$ -	$ 756,592	$ -	$ (1,068,904)
Brownfield Redevelopment Authority	59,272	-	-	-	(59,272)
Total component units	$ 1,884,768	$ -	$ 756,592	$ -	$ (1,128,176)

continued...

Statement of Activities
For the Year Ended June 30, 2018

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Changes in net position				
Net expense	$ (33,505,698)	$ (479,389)	$ (33,985,087)	$ (1,128,176)
General revenues				
Property taxes	11,904,598	-	11,904,598	1,602,328
Income taxes	13,152,028	-	13,152,028	-
State-shared revenue (unrestricted)	9,791,923	-	9,791,923	-
Unrestricted investment earnings	327,058	18,568	345,626	-
Cable franchise fees	550,765	-	550,765	-
Total general revenues	35,726,372	18,568	35,744,940	1,602,328
Change in net position	2,220,674	(460,821)	1,759,853	474,152
Net position, beginning of year, as restated	237,620,730	14,209,068	251,829,798	(24,763,901)
Net position, end of year	$ 239,841,404	$ 13,748,247	$ 253,589,651	$ (24,289,749)

concluded.

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

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

CITY OF PONTIAC, MICHIGAN

Balance Sheet
Governmental Funds
June 30, 2018

	General	Major Streets	Local Streets	Sanitation
Assets				
Cash and investments	$ 16,698,665	$ 3,272,575	$ 5,902,754	$ 4,102,820
Accounts receivable, net	560,111	354,035	-	112,482
Taxes receivable, net	4,619,091	-	-	17,411
Interest receivable	41,189	1,918	2,026	9,744
Due from other governments	1,675,662	825,830	251,631	-
Due from other funds	580,016	-	-	-
Prepaids	15,278	-	-	1
Restricted assets	-	-	-	2,428,733
Total assets	$ 24,190,012	$ 4,454,358	$ 6,156,411	$ 6,671,191
Liabilities				
Accounts payable	$ 2,142,897	$ 1,037,997	$ 96,491	$ 287,958
Accrued wages	93,452	4,141	5,411	1,298
Due to other governments	925,782	-	-	148,635
Due to other funds	-	-	-	-
Deposits payable	548,910	-	-	-
Total liabilities	3,711,041	1,042,138	101,902	437,891
Deferred inflows of resources				
Unavailable revenue	3,119,769	748,817	121,157	17,452
Fund balances				
Nonspendable	15,278	-	-	1
Restricted	-	2,663,403	5,933,352	6,215,847
Committed	3,200,000	-	-	-
Assigned	3,550,000	-	-	-
Unassigned	10,593,924	-	-	-
Total fund balances	17,359,202	2,663,403	5,933,352	6,215,848
Total liabilities, deferred inflows of resources and fund balances	$ 24,190,012	$ 4,454,358	$ 6,156,411	$ 6,671,191

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

District Court	Nonmajor Governmental Funds	Totals
$ 799,518	$ 6,122,668	$ 36,899,000
-	37,869	1,064,497
-	11,212	4,647,714
-	6,039	60,916
-	-	2,753,123
-	-	580,016
2,093	51,731	69,103
-	-	2,428,733
$ 801,611	$ 6,229,519	$ 48,503,102
$ 87,691	$ 228,098	$ 3,881,132
60,193	14,055	178,550
62,789	55,600	1,192,806
580,016	-	580,016
8,829	700	558,439
799,518	298,453	6,390,943
-	8,649	4,015,844
2,093	51,731	69,103
-	5,697,162	20,509,764
-	173,524	3,373,524
-	-	3,550,000
-	-	10,593,924
2,093	5,922,417	38,096,315
$ 801,611	$ 6,229,519	$ 48,503,102

This page intentionally left blank.

Reconciliation
Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	$ 38,096,315
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	26,694,745
Capital assets being depreciated	340,646,193
Accumulated depreciation	(277,902,006)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	4,015,844
Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit assets/liabilities and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(15,005,003)
Net pension asset	236,799,331
Net other postemployment benefit liability	(85,523,483)
Deferred outflows related to the net pension asset and liability	2,412,557
Deferred inflows related to the net pension asset and liability	(18,896,162)
Deferred inflows related to the net other postemployment benefit liability	(1,360,370)
Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	6,299,847
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(6,919,646)
Lawsuit settlement	(7,350,000)
Landfill closure and postclosure costs	(2,166,758)
Net position of governmental activities	$ 239,841,404

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, 2018

	General	Major Streets	Local Streets	Sanitation
Revenues				
Property taxes and special assessments	$ 8,568,554	$ -	$ -	$ 1,974,904
Income taxes	13,314,704	-	-	-
Federal revenue	116,621	-	-	-
State revenue	9,938,812	4,659,739	1,580,296	-
Charges for services	1,058,769	-	-	1,869,072
Fines and forfeitures	30,301	-	-	-
Licenses and permits	183,326	-	-	-
Interest and rental revenue	429,812	17,442	24,010	33,133
Other revenue	1,600,840	959,454	-	-
Total revenues	35,241,739	5,636,635	1,604,306	3,877,109
Expenditures				
Current:				
General government	4,210,021	-	-	-
District court	-	-	-	-
Public safety	19,311,559	-	-	-
Public works	2,075,862	6,819,857	1,955,142	3,360,995
Community and economic development	1,812,619	-	-	-
Community and human services	-	-	-	-
Recreation and culture	407,439	-	-	-
Other expenditures	2,412,557	-	-	-
Capital outlay	-	-	-	-
Total expenditures	30,230,057	6,819,857	1,955,142	3,360,995
Revenues over (under) expenditures	5,011,682	(1,183,222)	(350,836)	516,114
Other financing sources (uses)				
Transfers in	200,000	1,500,000	2,021,000	-
Transfers out	(4,926,255)	(471,000)	-	-
Total other financing sources (uses)	(4,726,255)	1,029,000	2,021,000	-
Net changes in fund balances	285,427	(154,222)	1,670,164	516,114
Fund balances, beginning of year	17,073,775	2,817,625	4,263,188	5,699,734
Fund balances, end of year	$ 17,359,202	$ 2,663,403	$ 5,933,352	$ 6,215,848

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

District Court	Nonmajor Governmental Funds	Totals
$ -	$ 1,338,423	$ 11,881,881
-	-	13,314,704
-	-	116,621
182,896	224,145	16,585,888
701,763	72,925	3,702,529
1,000,177	43,671	1,074,149
-	2,289,586	2,472,912
1,463	49,275	555,135
-	217,867	2,778,161
1,886,299	4,235,892	52,481,980
-	386,950	4,596,971
3,011,125	-	3,011,125
-	2,225,693	21,537,252
-	32,813	14,244,669
-	-	1,812,619
-	365,160	365,160
-	238,249	645,688
-	-	2,412,557
-	647,941	647,941
3,011,125	3,896,806	49,273,982
(1,124,826)	339,086	3,207,998
1,126,255	500,000	5,347,255
-	(1,200,000)	(6,597,255)
1,126,255	(700,000)	(1,250,000)
1,429	(360,914)	1,957,998
664	6,283,331	36,138,317
$ 2,093	$ 5,922,417	$ 38,096,315

This page intentionally left blank.

CITY OF PONTIAC, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Changes in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net changes in fund balances - total governmental funds	$	1,957,998
Amounts reported for *governmental activities* in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital assets purchased/constructed		5,335,493
Depreciation expense		(4,831,302)
Revenues recorded in the statement of activities in the prior year that did not provide current financial resources are reported as revenues in the funds in the current year.		1,782,136
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Change in net other postemployment benefit liability		3,185,468
Change in net pension asset/liability		34,040
Change in financial guarantee		496,752
Change in landfill closure and postclosure liability		(411)
Change in accrual for lawsuit settlement		(7,350,000)
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds. The change in the net position of the internal service funds is reported with governmental activities.		1,610,500
Change in net position of governmental activities	$	2,220,674

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

Statement of Net Position

Proprietary Funds
June 30, 2018

	Business-type Activities — Parking Enterprise Fund	Governmental Activities — Internal Service Funds
Assets		
Current assets:		
Cash and investments	$ 2,630,072	$ 3,830,296
Accounts receivable	-	392,652
Due from other governments	-	72,165
Interest receivable	3,617	33
Prepaids	-	4,046,296
Total current assets	2,633,689	8,341,442
Noncurrent assets:		
Capital assets not being depreciated	3,042,537	-
Capital assets being depreciated, net	6,815,079	-
Net pension asset	2,432,946	-
Total noncurrent assets	12,290,562	-
Total assets	14,924,251	8,341,442
Liabilities		
Current liabilities:		
Accounts payable	4,643	59,462
Accrued liabilities	-	1,548,389
Accrued wages	-	1,512
Due to other governments	519	-
Current portion of compensated absences	-	138,501
Total current liabilities	5,162	1,747,864
Noncurrent liabilities:		
Net other postemployment benefit liability	989,504	-
Compensated absences	-	293,731
Total noncurrent liabilities	989,504	293,731
Total liabilities	994,666	2,041,595
Deferred inflows of resources		
Deferred pension amounts	181,338	-
Net position		
Investment in capital assets	9,857,616	-
Restricted for pension benefits	2,251,608	-
Unrestricted	1,639,023	6,299,847
Total net position	$ 13,748,247	$ 6,299,847

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

CITY OF PONTIAC, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	$ 15,128	$ 5,354,297
Other revenue	164,925	-
Total revenues	180,053	5,354,297
Operating expenses		
Insurance	-	5,270,933
Operating and maintenance costs	94,582	-
Workers' compensation expense	-	(263,764)
Depreciation	564,860	-
Miscellaneous expense	-	2,310
Total operating expenses	659,442	5,009,479
Operating income (loss)	(479,389)	344,818
Nonoperating revenues		
Interest income	18,568	15,682
Income (loss) before transfers	(460,821)	360,500
Other financing sources		
Transfers in	-	1,250,000
Change in net position	(460,821)	1,610,500
Net position, beginning of year, as restated	14,209,068	4,689,347
Net position, end of year	$ 13,748,247	$ 6,299,847

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

This page intentionally left blank.

Statement of Cash Flows

Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	$ 180,053	$ -
Cash payments to suppliers	(66,403)	(5,796,114)
Cash payments to employees	-	(55,462)
Cash received from interfund services	-	5,344,781
Net cash provided (used) by operating activities	113,650	(506,795)
Cash flows from noncapital financing activities		
Transfers in	-	1,250,000
Cash flows from investing activities		
Interest income received	17,449	15,682
Net change in cash and investments	131,099	758,887
Cash and investments, beginning of year	2,498,973	3,071,409
Cash and investments, end of year	$ 2,630,072	$ 3,830,296
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating income (loss)	$ (479,389)	$ 344,818
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	564,860	-
Change in:		
Accounts receivable	-	(7,206)
Due from other governments	-	(45,930)
Interest receivable	-	(33)
Prepaids	183,440	(27,067)
Net pension asset and deferred amounts	(1,850)	-
Accounts payable	(59,938)	6,775
Accrued liabilities	-	(758,457)
Accrued wages	-	(241)
Due to other governments	(1,211)	-
Net other postemployment benefit liability	(92,262)	-
Compensated absences	-	(19,454)
Net cash provided (used) by operating activities	$ 113,650	$ (506,795)

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

Statement of Fiduciary Net Position
Fiduciary Funds

	December 31, 2017	June 30, 2018
	Pension and Other Postemployment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 3,811,223	$ 1,556,440
Investments at fair value:		
U.S. government obligations and agencies	1,806,994	-
Government agency notes and debentures	45,022,426	-
Mortgage-backed securities	1,026,819	-
Collateralized mortgage obligations	259,509	-
U.S government securities	27,134,509	
U.S government mortgage-backed securities	28,920,641	-
Commercial paper	1,374,677	-
Commercial mortgage pools	2,902,745	-
Asset-backed securities	4,935,404	-
Corporate and other bonds	33,743,252	-
Foreign bonds and notes	97,947	-
Limited partnerships	98,759,457	-
Domestic stock	135,963,922	-
Short-term investments	17,778,346	-
Equities	27,194,818	-
Domestic equities	315,202,803	-
Private equities	12,513,071	-
Real estate	20,272,246	-
Real estate investment trusts	857,596	-
Accrued interest and dividends receivable	1,395,355	-
Due from broker	37,187	-
Other receivables	9,172	-
Due from Police and Fire Retirement System VEBA	86,983	-
Total assets	781,107,102	$ 1,556,440

continued...

CITY OF PONTIAC, MICHIGAN

Statement of Fiduciary Net Position
Fiduciary Funds

	December 31, 2017	June 30, 2018
	Pension and Other Postemployment Trust Funds	Agency Funds
Liabilities		
Due to City of Pontiac	$ 72,778	$ -
Due to Police and Fire Retirement System	86,698	-
Accounts payable and other	1,337,762	24,289
Due to other governments	-	23,296
Deposits payable	-	1,508,855
Total liabilities	1,497,238	$ 1,556,440
Net position restriced for		
Pension benefits	738,657,818	
Other postemployment benefits	40,952,046	
Total net position	$ 779,609,864	

concluded.

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

Statement of Changes in Fiduciary Net Position
Pension and Other Postemployment Benefit Trust Funds
For the Year Ended December 31, 2017

	Pension and Other Postemployment Trust Funds
Additions	
Investment income:	
Interest and dividend income	$ 12,058,111
Net increase in fair value	92,785,691
Less investment expenses	(3,600,100)
Net investment income	101,243,702
Contributions -	
Employer	1,773,627
Miscellaneous and litigation revenue	35,324
Total additions	103,052,653
Deductions	
Retirees' pension benefits	48,087,858
Retiree health benefit payments	1,887,615
Administrative expenses	1,102,382
Total deductions	51,077,855
Change in net position	51,974,798
Net position, beginning of year	727,635,066
Net position, end of year	$ 779,609,864

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

CITY OF PONTIAC, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units
June 30, 2018

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	$ 296,350	$ 262,531	$ 558,881
Receivables, net	9,864	-	9,864
Total assets	306,214	262,531	568,745
Deferred outflows of resources			
Deferred loss on refunding	554,349	-	554,349
Liabilities			
Accounts payable and accrued liabilities	213,151	29,209	242,360
Long-term liabilities:			
Due within one year	1,360,000	-	1,360,000
Due in more than one year	19,790,000	-	19,790,000
Financial guarantee	4,020,483	-	4,020,483
Total liabilities	25,383,634	29,209	25,412,843
Net position			
Unrestricted (deficit)	$ (24,523,071)	$ 233,322	$ (24,289,749)

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

Combining Statement of Activities

Discretely Presented Component Units
For the Year Ended June 30, 2018

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Commercial and industrial development	$ -	$ 59,272	$ 59,272
Financial guarantee	756,592	-	756,592
Interest on long-term debt	1,068,904	-	1,068,904
Total expenses	1,825,496	59,272	1,884,768
Program revenues			
Operating grants and contributions	756,592	-	756,592
Net program expense	(1,068,904)	(59,272)	(1,128,176)
General revenues			
Property taxes	1,566,878	35,450	1,602,328
Change in net position	497,974	(23,822)	474,152
Net position (deficit), beginning of year	(25,021,045)	257,144	(24,763,901)
Net position (deficit), end of year	$ (24,523,071)	$ 233,322	$ (24,289,749)

The accompanying notes are an integral part of the 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. Starting in early 2000's, the City's General Fund began having a structural deficit that eventually prompted a preliminary review of the City's financial condition 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 Manager to run the City on March 19, 2009. This Emergency Manager served until June 30, 2010. A second Emergency Manager was appointed and served from July 4, 2010 to September 8, 2011. A third Emergency Manager was appointed on September 12, 2011. On August 19, 2013, the Emergency Manager appointed a City Administrator to manage the day-to-day operations of the City (Order S-332), issued a final order, (Order S-334), (which was later amended), and submitted his resignation to the governor who appointed a Receivership Transition Advisory Board (RTAB) in accordance with Public Act 436 of 2012 to monitor the operations of the City. As of April 30, 2016 the City Administrator position was eliminated and the State relinquished most of the control to the local officials. The State of Michigan, through the RTAB, retained control and final say over major litigation cases and contracts in excess of $500,000 as well as all budget amendments. On August 1, 2017, the State's Treasury Department announced that the Pontiac Receivership Transition Advisory Board would be dissolved and that effective immediately, city officials would once again have full power over Pontiac's internal operations and finances. Currently, the City directly manages and staffs treasury, city clerk, human resources, finance, executive offices, purchasing operations, and parts of DPW operations while other major functions and responsibilities of the City have been subcontracted with other government agencies or private service providers. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

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

The Brownfield Redevelopment Authority was created to remediate contaminated properties located within the City of Pontiac and to promote economic growth for these properties through the use of captured property taxes. The properties included are listed as contaminated by the Environmental Protection Agency. Each authority shall be under the supervision and control of a board chosen by the governing body (City Council). The governing body may by majority vote designate the trustees of the board of the Tax Increment Financing Authority as the Brownfield Redevelopment Board, which City Council did by resolution on December 18, 1997. Internally prepared financial statements for the Brownfield Redevelopment Authority can be obtained from the City of Pontiac finance department at 47450 Woodward, Pontiac, Michigan 48342.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, some property taxes and income taxes will be collected after the period of availability; receivables have been recorded for these, along with an “unavailable revenue” deferred inflows of resources.

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

The City reports the following major governmental funds:

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

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

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

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

District court special revenue fund. The district court fund accounts for receipts and disbursements directly related to the operations of the district court. The financial resources of this fund are committed for district court operations.

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

All funds are shown for the year ended June 30, 2018, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2017.

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

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

The City of Pontiac 2017 tax is levied and collectible on July 1, 2017 and is recognized as revenue in the year ended June 30, 2018, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the City of Pontiac totaled approximately $674 million (a portion of which is abated and a portion of which is captured by the TIFA and Brownfield), on which taxes levied consisted of 11.2737 mills for operating purposes, 2.8183 mills for refuse collection and disposal, 1.4091 mills for capital improvement and .5000 mills for senior activities. This resulted in $7.06 million for operating, $1.76 million for refuse collection and disposal, $0.86 million for capital improvement and $0.30 million for senior activities. These amounts are recognized in the respective general fund, special revenue fund, and capital projects fund financial statements as tax revenue.

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

Deposits and Investments

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

Receivables and Payables

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

Prepaid Items

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

Restricted Assets

The City has set cash aside for the future closure and post-closure care for the landfill. These assets have been classified as restricted assets in the sanitation fund.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $50,000 for buildings and building improvements, $25,000 for land improvements, $20,000 for vehicles and $10,000 for all other assets when valued individually and have an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation.

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

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension and postemployment benefit plans as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Compensated Absences

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

Long-term Obligations

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources related to pension and other postemployment benefit costs. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting, that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balances

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

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

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other post employment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Notes to Financial Statements

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Construction Code Fees

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

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposits and investment balances for the primary government and the component units of as June 30, 2018:

	Primary Government	Component Units	Total
Statement of net position			
Cash and investments	$ 43,359,368	$ 558,881	$ 43,918,249
Restricted assets	2,428,733	-	2,428,733
Statement of fiduciary net position			
Cash and cash equivalents	5,367,663	-	5,367,663
Investments	775,767,182	-	775,767,182
Total	$ 826,922,946	$ 558,881	$ 827,481,827

Bank deposits (demand accounts and certificates of deposit)	$ 35,954,019
Investments in securities, mutual funds and similar vehicles:	
U.S. Treasury securities	979,850
Municipal bonds	299,343
Oakland County Local Government Investment Pool (LGIP)	10,619,731
Money markets	47,007
General Employees' Retirement System	506,136,370
Police and Fire Retirement System	232,135,410
Police and Fire Retirement System VEBA	41,306,625
Cash on hand	3,472
	$ 827,481,827

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

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

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

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. The PFRS's deposits and investment policies are in accordance with statutory authority.

The General Employees' Retirement System (GERS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 347 of 2012, 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 City, pension funds, and other employee benefit trust funds' cash and investments are subject to several types of risk, which are examined in more detail below. The following information includes the Police and Fire Retirement System, General Employees' Retirement System and Police and Fire Retirement System VEBA balances as of December 31, 2017 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 $36,599,008 of bank deposits (certificates of deposit, checking, and savings accounts) of which $1,507,570 was covered by federal deposit insurance and $2,428,733 was collateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Police and Fire Retirement System - The PFRS does not have a deposit policy for custodial credit risk. At year end the PFRS had $2,326,841 in bank deposits (checking, and savings accounts) that were uninsured and uncollateralized. The PFRS evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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 $966,185 of bank deposits (checking account) 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, 2018, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

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

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

Investment	Fair Value	Weighted Average Maturity (years)
Debt securities:		
U.S. treasury securities	$ 979,850	3.00
Municipal bonds	299,343	0.42
Oakland County LGIP	10,619,731	1.77

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

Investment	Fair Value	Weighted Average Maturity (years)
U.S. government agencies	$ 15,016,401	0.88
U.S. government mortgage-backed securities	4,487,418	11.61
U.S. government treasury bonds	12,118,108	7.71
Corporate bonds	8,371,416	4.28

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

Investment	Fair Value	Weighted Average Maturity (years)
Asset-backed securities	$ 4,430,230	3.57
Commercial mortgage pools	2,847,067	28.21
Commercial paper	1,374,677	0.01
Corporate bonds	24,201,768	8.3
Government agencies	1,763,825	3.67
Government bonds	31,660,024	7.31
Government mortgage-backed securities	24,433,223	20.54
Government issued commercial mortgage-backed securities	1,173,558	0.64
Index linked governmental bonds	5,160,958	7.05
Municipal/provincial bonds	5,264,061	3.99
Nongovernment-backed CMOs	55,678	17.94
Short-term investment funds	14,337,034	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 (years)
Corporate:		
Asset-backed	$ 505,174	8.67
Bonds	1,170,068	4.87
Collateralized mortgage obligations	211,952	6.57
Foreign bonds	97,947	5.03
U.S. government:		
Collateralized mortgage obligations	47,557	38.68
Mortgage-backed	1,026,819	25.35
TIPS	205,377	5.6
Treasuries, notes and bonds	1,601,617	3.41

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

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

Investment	Fair Value	Rating	Rating Organization
Oakland County LGIP	$ 10,619,731	Not rated	n/a
Municipal bonds	299,343	AA	S&P
Money markets	4,562	Not rated	n/a
Money markets	42,445	Not rated	n/a

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

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	$ 2,570,819	AA	S&P
Corporate bonds	4,948,472	A	S&P
Corporate bonds	852,125	BBB	S&P
Short-term investment funds	2,005,360	Not rated	n/a
Government agencies	15,016,401	AA	S&P

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

Investment	Fair Value	Rating	Rating Organization
Asset-backed securities	$ 2,294,357	Aaa	Moody's
Asset-backed securities	240,919	Aa	Moody's
Asset-backed securities	1,894,954	Unrated	n/a
Commercial mortgage-backed securities	1,985,914	Aaa	Moody's
Commercial mortgage-backed securities	861,153	Aa	Moody's
Commercial paper	1,374,677	Unrated	n/a
Noncommercial mortgage-backed securities	3,329	A	Moody's
Noncommercial mortgage-backed securities	52,349	Unrated	n/a
Corporate bonds	50,366	Aaa	Moody's
Corporate bonds	986,788	Aa	Moody's
Corporate bonds	11,751,726	A	Moody's
Corporate bonds	11,412,888	Baa	Moody's
Governmental agencies	926,437	Aaa	Moody's
Governmental agencies	837,388	Aa	Moody's
Government bonds	1,216,774	Aaa	Moody's
Government mortgage backed	24,433,223	Aaa	Moody's
Municipal/Provincial bonds	956,952	Aaa	Moody's
Municipal/Provincial bonds	2,170,700	Aa	Moody's
Municipal/Provincial bonds	2,136,409	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 are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate:			
Asset-backed securities	$ 133,440	AAA	S&P
Asset-backed securities	197,981	AA	S&P
Asset-backed securities	74,420	A	S&P
Asset-backed securities	99,333	Not rated	n/a
Bonds	90,565	AA	S&P
Bonds	256,051	A	S&P
Bonds	792,605	BBB	S&P
Bonds	30,847	Not rated	n/a
Collateralized mortgage obligations	211,952	Not rated	n/a
Foreign bonds	19,861	A	S&P
Foreign bonds	78,086	BBB	S&P

Concentration of Credit Risk

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

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

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

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

Foreign Currency Risk

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

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

General Employees' Retirement System - The pension system restricts the amount of investments in foreign currency-denominated investments to 10 percent of total pension system investments. At December 31, 2017, the only type of investments which were subject to foreign currency risk were equity investments. The total amount of equity investments which were subject to foreign currency risk at year end was $29,100,414. At year end, the System had a total foreign currency translation loss of $398,516 related to equity investments.

Security	Fair Value
Australian Dollar	$ 1,976,611
British Pound	4,924,748
Canadian Dollar	909,999
Denmark Krone	3,339,572
European Euro	7,023,434
Hong Kong Dollar	3,003,198
Japanese Yen	2,821,398
Mexican Peso	1,112,945
South African Rand	1,408,061
Swiss Franc	2,580,448

Fair Value Measurements

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

The City had the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at June 30, 2018
Debt securities:				
U.S. treasury securities	$ -	$ 979,850	$ -	$ 979,850
Municipal bonds	-	299,343	-	299,343
Total investments at fair value	$ -	$ 1,279,193	$ -	1,279,193
Investments measured at NAV				
Oakland county investments				10,619,731
Total investments				$ 11,898,924

Valuation Techniques. The City used quoted market prices for similar securities in determining the inputs used to categorize the fair value measurements of its investments.

Investments in Entities that Calculate Net Asset Value per Share

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

At the year ended June 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County LGIP	$ 10,619,731	$ -	No restrictions	None

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

Police and Fire Retirement System - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2017
Debt securities:				
U.S. government securities	$ -	$ 27,134,509	$ -	$ 27,134,509
U.S. government mortgage-backed securities	-	4,487,418	-	4,487,418
Corporate bonds	-	8,371,416	-	8,371,416
Equity securities - common stock	59,091,248	-	-	59,091,248
Real estate funds	-	-	5,416,384	5,416,384
Limited partnerships	-	-	23,345,125	23,345,125
Total investments at fair value	$ 59,091,248	$ 39,993,343	$ 28,761,509	127,846,100
Investments measured at NAV				
Equities funds				76,872,674
Limited partnerships				8,072,073
Real estate funds				14,855,862
Total investments at NAV				99,800,609
Total investments				$ 227,646,709

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at December 31, 2017 was determined primarily based on level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of real estate funds and limited partnerships at December 31, 2017 was determined primarily based on level 3 inputs. The System estimates the fair value of these investments based on a review of an independent auditor's report for each fund and the fund's General Partner's assessment of fair value. The General Partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equities funds	$ 76,872,674	$ -	Monthly	Up to 30 days
Limited partnerships	8,072,073	-	Monthly	15 days
Real estate funds	14,855,862	-	Quarterly	10 days
	$ 99,800,609	$ -		

The equities funds includes investments in U.S. and non U.S. publicly traded equities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The limited partnership is in a bond fund that invests predominantly in U.S. and foreign government securities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

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

General Employees' Retirement System - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2017
Debt securities:				
U.S. treasury securities	$ -	$ 32,036,837	$ -	$ 32,036,837
U.S. agencies	-	1,264,195	-	1,264,195
Municipal/provincial	-	4,887,248	-	4,887,248
Commercial mortgage backed	-	4,076,303	-	4,076,303
Commercial paper	-	1,374,677	-	1,374,677
Residential mortgage backed	-	24,932,853	-	24,932,853
Index-linked government bonds	-	5,160,958	-	5,160,958
Corporate bonds	-	24,201,768	-	24,201,768
Asset backed	-	4,430,230	-	4,430,230
Equity securities:				
Common stock	314,556,886	-	-	314,556,886
Exchange-traded funds	645,917	-	-	645,917
Private equity funds	-	-	12,513,071	12,513,071
Total investments at fair value	$ 315,202,803	$ 102,365,069	$ 12,513,071	430,080,943
Investments measured at NAV				
International equities fund				41,399,126
Real estate fund				13,067,324
Global bond fund				6,883,975
Total investments at NAV				61,350,425
Total investments				$ 491,431,368

Debt securities fair value at December 31, 2017 was determined primarily based on Level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices (which is the value of the bond less accrued interest) may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals, maturities, call features, and ratings, among other factors.

The fair value of private equity investments at December 31, 2017 was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments based on a review of an independent auditor’s report for each fund and each fund’s General Partner’s assessment of fair value. The General Partner’s estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the underlying assets. Currently, there remains $3.7 million in unfunded commitments to these funds.

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
International equities fund	$ 41,399,126	$ -	Monthly	10 days
Real estate fund	13,067,324	24,140,214	Monthly/ quarterly	10-180 days
Global bond fund	6,883,975	-	Monthly	10 days
	$ 61,350,425	$ 24,140,214		

The international equities fund includes investments in mainly non-U.S. publicly traded equities and other assets. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The global bonds fund includes investments in investment grade fixed-income securities issued by U.S. and non-U.S. agencies and other governments, corporate, and other issuers. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The real estate funds class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this fund have been estimated using the net asset value of the System's ownership interest in partners' capital.

The private equity fund class includes several private equity funds that have holdings in underlying U.S. and non-U.S. buyout funds, international funds, venture capital funds, special situation funds, hedge funds, and real estate funds.

Police and Fire Retirement System VEBA - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2017
Debt securities:				
U.S. government obligations and agencies	$ -	$ 1,806,994	$ -	$ 1,806,994
Mortgage-backed securities	-	1,026,819	-	1,026,819
Collateralized mortgage obligations	-	259,509	-	259,509
Asset-backed securities	-	505,174	-	505,174
Corporate bonds	-	1,170,068	-	1,170,068
Foreign bonds and notes	-	97,947	-	97,947
Equity securities:				
Common stock	27,194,818	-	-	27,194,818
Real estate investment trusts	857,596	-	-	857,596
Limited partnerships	-	-	3,313,489	3,313,489
Total investments at fair value	$ 28,052,414	$ 4,866,511	$ 3,313,489	36,232,414
Investments measured at NAV				
Bond fund				2,678,345
Total investments				$ 38,910,759

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at December 31, 2017 was determined primarily based on Level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of limited partnerships at December 31, 2017 was determined primarily based on Level 3 inputs. The Trust estimates the fair value of these investments based on a review of an independent auditor's report for each fund and the fund's General Partner's assessment of fair value. The General Partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Bond fund	$ 2,678,345	$ -	Monthly	15 days

The bond fund is an investment in a fund that invest predominantly in U.S. and foreign government securities. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

In addition, the Trust has an investment for approximately $1,435,952 reported at amortized cost in accordance with GASB Statement No. 79. This investment is not subject to any limitations or restrictions on withdrawals.

4. RECEIVABLES

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

	Governmental Activities	Business-type Activities
Taxes	$ 16,619,314	$ -
Accounts	1,553,533	-
Intergovernmental	2,825,288	-
Interest receivable	60,949	3,617
Less allowance for doubtful accounts	(12,067,984)	-
Net receivables	$ 8,991,100	$ 3,617

At June 30, 2018, approximately $4.0 million of the net receivables in governmental activities are not expected to be collected within one year.

Notes to Financial Statements

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	$ 25,105,058	$ -	$ -	$ 25,105,058
Construction in progress	2,533,927	1,291,059	(2,235,299)	1,589,687
Total capital assets not being depreciated	27,638,985	1,291,059	(2,235,299)	26,694,745
Capital assets being depreciated:				
Streets and bridges	290,207,388	8,039,053	-	298,246,441
Buildings and improvements	40,648,275	-	-	40,648,275
Machinery and equipment	661,622	-	-	661,622
Vehicles	714,903	-	-	714,903
Land improvements	374,952	-	-	374,952
Total capital assets being depreciated	332,607,140	8,039,053	-	340,646,193
Less accumulated depreciation for:				
Streets and bridges	(232,137,362)	(4,575,476)	-	(236,712,838)
Buildings and improvements	(39,863,955)	(99,984)	-	(39,963,939)
Machinery and equipment	(341,682)	(67,745)	-	(409,427)
Vehicles	(573,184)	(70,537)	-	(643,721)
Land improvements	(154,521)	(17,560)	-	(172,081)
Total accumulated depreciation	(273,070,704)	(4,831,302)	-	(277,902,006)
Total capital assets being depreciated, net	59,536,436	3,207,751	-	62,744,187
Governmental activities capital assets, net	$ 87,175,421	$ 4,498,810	$ (2,235,299)	$ 89,438,932

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Parking fund				
Capital assets not being depreciated - Land	$ 3,042,537	$ -	$ -	$ 3,042,537
Capital assets being depreciated:				
Buildings and improvements	33,573,313	-	-	33,573,313
Traffic signs	57,182	-	-	57,182
Total capital assets being depreciated	33,630,495	-	-	33,630,495
Less accumulated depreciation for:				
Buildings and improvements	(26,193,374)	(564,860)	-	(26,758,234)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(26,250,556)	(564,860)	-	(26,815,416)
Total capital assets being depreciated, net	7,379,939	(564,860)	-	6,815,079
Parking fund capital assets, net	$ 10,422,476	$ (564,860)	$ -	$ 9,857,616

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

Depreciation of governmental activities by function	
General government	$ 104,447
Public safety	63,680
Public works	4,619,047
Community and human services	44,128
Total depreciation expense - governmental activities	$ 4,831,302
Depreciation of business-type activities by function	
Parking	$ 564,860

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

	Spent to Date	Remaining Commitment
Governmental activities:		
D/A Contractor Inc.	$ 43,039	$ 70,315
Nicoles Heating & Cooling	-	90,260
Great Lakes Contracting Solutions, LLC	471,007	554,326
Cadillac Asphalt, LLC	640,400	2,300,950
	$ 1,154,446	$ 3,015,851

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2018, the composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General fund	District court fund	$ 580,016

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, 2018, interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred from	Fund Transferred To	Amount
General fund	District court fund (2)	$ 1,126,255
	Major street (1)	500,000
	Local street (1)	1,550,000
	Youth recreation (5)	400,000
	Cemetery (6)	100,000
	Internal service funds (7)	1,250,000
Major street fund	Local street (3)	471,000
PA-48 telecommunication allocation	General fund (4)	200,000
Capital improvements fund	Major street fund (1)	1,000,000
	Total	$ 6,597,255

During the fiscal year transfers were used to (1) Transfer for capital infrastructure projects (2) Transfer for subsidy of District Court operations (3) Make allowable transfers under ACT 51 (4) Transfer for allowable expenditures under Metro Act (5) Transfer for Youth Recreation millage (6) Transfer for Cemetery operations (7) Retiree health care settlement.

7. LONG-TERM DEBT

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Other long-term obligations:					
2007C TIFA Bond Financial Guarantee	$ 7,416,398	$ 259,841	$ (756,593)	$ 6,919,646	$ 964,276
Compensated absences	451,686	8,192	(27,646)	432,232	138,501
Landfill closure and postclosure costs	2,166,347	-	411	2,166,758	-
Phoenix Center Settlement	-	7,350,000	-	7,350,000	4,550,000
Total governmental activities	$ 10,034,431	$ 7,618,033	$ (783,828)	$ 16,868,636	$ 5,652,777

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component units					
Revenue bonds:					
$31,080,000 2007 C TIFA Bonds, due in annual installments of $590,000 to $1,985,000 through the year 2031; interest at 3.50% to 5.00%	$ 22,455,000	$ -	$ (1,305,000)	$ 21,150,000	$ 1,360,000
Other long-term obligation - Financial guarantee	3,263,890	756,593	-	4,020,483	-
Total component units	$ 25,718,890	$ 756,593	$ (1,305,000)	$ 25,170,483	$ 1,360,000

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

	Component Units	
Year Ending June 30	Principal	Interest
2019	$ 1,360,000	$ 982,762
2020	1,410,000	928,362
2021	1,470,000	870,200
2022	1,860,000	796,698
2023	1,985,000	703,700
2024-2028	8,175,000	2,242,064
2029-2031	4,890,000	443,476
	$ 21,150,000	$ 6,967,262

Compensated absences and separation accruals in governmental activities of $432,232 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 $2,166,758 has no fixed maturity dates; therefore; it has been excluded from the above summary.

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

Financial Guarantee

In 2007, the City guaranteed the 10-year, $1.315 million TIFA 2 2007C series, the 17-year, $3.28 million TIFA 2 2007C series, and the 24-year, $24.45 million TIFA 3 2007C series revenue bond issuances of the Tax Increment Finance Authority (TIFA), a legally separate authority located within the City, in accordance with a resolution adopted by the City. The bonds mature annually through May 1, 2017, May 1, 2024 and May 1, 2031, respectively, with semiannual interest payments. In the event that the TIFA is unable to make a payment, the City is required to make that payment. As a result of declining revenues that occurred in 2014 and prior, the City determined in fiscal year 2014 that it was more likely than not that the City would be required to pay a percentage of the remaining portion of the TIFA's debt service payments based on this guarantee. During fiscal year 2018, total TIFA debt service amounted to $2,339,963 of which $756,592 was paid by the City and $1,583,371 was paid by the TIFA. The amount of the remaining financial guarantee liability recognized is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

The agreement also provides for the TIFA to reimburse the City for any debt service amounts paid for by the City. Accordingly, the TIFA has a liability recorded in the amount of $4,020,483 at June 30, 2018. This liability has been recorded as a long-term liability in the combining statement of net position for the discretely presented component units as funds to reimburse the general fund are not expected to be available until all TIFA debt service has been paid in full.

Phoenix Center Settlement

The City has also been in litigation since 2012 over its plans to demolish the Phoenix Center Parking Garage. Ottawa Towers, a business owner utilizing the Parking Garage and structure sued the City to prevent the demolition. The Michigan Supreme Court ruled in favor of Ottawa Towers thereby preventing the demolition. Ottawa Towers continued litigation against the City claiming damages in excess of $10 million due to their inability to lease the building during the demolition case. During mediation, the City and Ottawa Towers came to an agreement that requires the City to pay Ottawa Towers a settlement of $7 million plus attorney fees of $350,000. In addition, the City will be required to perform $6 million of repairs on the Phoenix Center. The City will retain ownership of the Phoenix Center. This agreement was approved by Pontiac City Council on 10/30/18 and was also approved by the Plaintiff. The final settlement documents were signed on 11/13/18. The initial payment of $4.2 million to Ottawa Towers and $350,000 of attorney fees is due at settlement, which is expected to be executed in the next year. The remaining $2.8 million will be payable in four equal annual installments of $700,000 over the next four years. The City is currently exploring its options for funding the required structural repairs to the Phoenix Center.

8. RESTRICTED ASSETS

The balance of the restricted asset accounts are as follows:

	Governmental Activities
Cash and investments -	
Landfill closure and postclosure costs	$ 2,428,733

9. 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 $2,166,758 reported as landfill closure and postclosure liability at June 30, 2018 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, 2018. 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, 2018, investments and deposits held in trust of $2,428,733 are held for these purposes. These are reported as restricted assets on the balance sheet. The total fund balance in the sanitation special revenue fund has been restricted as well. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by future tax revenue.

10. RISK MANAGEMENT

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

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

For medical, dental and workers' compensation, the City was fully insured in the last three fiscal years. However, for prior years in which the City was not fully insured, a liability is estimated for workers' compensation claims that have been reported as well as those that have not yet been reported. As of June 30, 2018, reported claims related to medical and dental for prior years have been paid and no additional claims are expected to be reported.

These liabilities are recorded in internal service funds. Changes in the estimated liability for the past two fiscal years were as follow:

	General Liability		Workers' Compensation	
	2018	2017	2018	2017
Unpaid claims -				
Beginning of year	$ 697,674	$ 391,268	$ 1,609,172	$ 1,013,200
Incurred claims (adjustments)	199,018	363,898	(344,810)	999,803
Claim payments	(403,972)	(57,492)	(208,693)	(403,831)
Unpaid claims -				
End of year	$ 492,720	$ 697,674	$ 1,055,669	$ 1,609,172

11. 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.

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

Approximately 14 percent of the System's assets are not publicly traded, and therefore do not have a readily determinable market value. Because these investments are not readily marketable, their estimated value is subject to uncertainty, and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.31%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Contributions. Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the board of trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2017, the active members were not required to contribute to the System. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not have to make a contribution to the System in the current year. Administrative costs are financed through investment earnings.

Employees Covered by Benefit Terms. At December 31, 2017, plan membership consisted of the following:

Retirees and beneficiaries	29
Inactive employees entitled to but not yet receiving benefits	183
Active plan members	1,078
Total membership	1,290

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

Reserves. In accordance with state law, the City establishes reserves for various purposes. The balance of the reserve accounts at December 31, 2017 are as follows:

Reserve / Group	Balance
Retiree reserve	$ 231,193,313
Employee reserve	485,126

Net Pension Asset. The City's net pension asset was measured as of December 31, 2017.

Actuarial Assumptions. The total pension asset was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.25%
Salary increases	3.6 - 7.4%, average, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Health Annuitant Mortality Table (unadjusted) projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - Large Cap	20.00%	5.00%
Domestic equity - Mid Cap	15.00%	6.00%
Domestic equity - Small Cap	10.00%	6.00%
International equity	5.00%	5.00%
Emerging markets equity	5.00%	6.00%
Fixed income - Core	25.00%	2.00%
Real estate	10.00%	4.00%
Private equity	10.00%	8.00%
	100.00%	

Discount Rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the City's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2016	$ 264,641,819	$ 466,152,032	$ (201,510,213)
Changes for the year:			
Service cost	350,549	-	350,549
Interest	17,598,425	-	17,598,425
Changes in benefit terms	10,658,814		10,658,814
Differences between expected and actual experience	871,705	-	871,705
Benefit payments, including refunds of employee contributions	(26,916,912)	(26,916,912)	-
Net investment income (loss)	-	67,868,606	(67,868,606)
Administrative expense	-	(696,340)	696,340
Miscellaneous other charges/revenue	-	29,291	(29,291)
Net changes	2,562,581	40,284,645	(37,722,064)
Balances at December 31, 2017	$ 267,204,400	$ 506,436,677	$ (239,232,277)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate. The following presents the net pension asset of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
City's net pension asset	$ (213,901,353)	$ (239,232,277)	$ (260,776,532)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is provided in Note 16.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2018, the City recognized pension expense of ($150,114). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	$ -	$ 1,457,170	$ (1,457,170)
Net difference between projected and actual earnings on pension plan investments	-	12,769,455	(12,769,455)
Total	$ -	$ 14,226,625	$ (14,226,625)

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

Year Ended	Amount
2019	$ 1,338,230
2020	84,859
2021	(7,756,691)
2022	(7,517,041)
2023	(270,297)
Thereafter	(105,685)
Total	$ (14,226,625)

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

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

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

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

Investment Policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy aims to maintain a target asset mix with some ability to rebalance the mix of order to meet the investment objectives.

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments was 14.25%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Contributions. State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Retirement System hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to make pension contributions based on the city ordinance, union contracts, and plan provisions; however, given that the plan is now closed, there are no longer any active members of the plan. The Retirement System's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2017, the City's required and actual contribution was $1,773,627. There were no contributions due from members during fiscal year 2017.

Employees Covered by Benefit Terms. At December 31, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	437
Inactive employees entitled to but not yet receiving benefits	140
Total membership	577

Reserves. As of December 31, 2017, the Plan's legally required reserves have been fully funded as follows:

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

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

The balances of the reserve accounts (required and actual reserves) at December 31, 2017 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	$ 247,226,114	$ 230,935,463
Employer reserve	1,285,678	1,285,678

Net Pension Liability. The City's net pension liability was measured as of December 31, 2017.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement (there are no assumptions related to inflation and salary increases as there was a partial termination and plan closure in 2011):

Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Cost of living adjustments	2.0%, per year up to 25 years

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	45.00%	5.64%
International equity	12.00%	6.91%
Domestic bonds	18.00%	1.93%
International bonds	5.00%	2.93%
Real estate	10.00%	3.67%
Other assets	10.00%	5.38%
	100.00%	

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

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	$ 250,798,054	$ 223,057,297	$ 27,740,757
Changes for the year:			
Interest	18,015,944	-	18,015,944
Changes in benefit terms	765,616	-	765,616
Differences between expected and actual experience	(575,621)	-	(575,621)
Employer contributions	-	1,773,627	(1,773,627)
Changes of assumptions	(606,903)	-	(606,903)
Benefit payments, including refunds of employee contributions	(21,170,946)	(21,170,946)	-
Net investment income	-	28,866,568	(28,866,568)
Administrative expense	-	(310,593)	310,593
Other	-	5,188	(5,188)
Net changes	(3,571,910)	9,163,844	(12,735,754)
Balances at December 31, 2017	$ 247,226,144	$ 232,221,141	$ 15,005,003

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	$ 40,926,651	$ 15,005,003	$ (8,456,688)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is provided in Note 16.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2018, the City recognized pension expense of $2,527,076. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 4,850,875	$ (4,850,875)
Contributions subsequent to measurement date	2,412,557	-	2,412,557
Total	$ 2,412,557	$ 4,850,875	$ (2,438,318)

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2019	$ 613,080
2020	134,717
2021	(3,023,740)
2022	(2,574,932)
Total	$ (4,850,875)

13. DEFINED CONTRIBUTION PENSION PLAN

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

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

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

The City's total payroll during the current year was $3,968,175. The current year contribution was calculated based on covered payroll of $1,479,471, resulting in employer contributions of $53,751 and employee contributions of $91,962. As of June 30, 2018, there were 24 plan participants in the City's Michigan Employee MERS defined contribution plan, and one employee participating in the City's 401A defined contribution plan.

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

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

Plan Description. The Police and Fire Retiree Prefunded Group Health and Insurance Trust (the "Trust") was established as an irrevocable prefunded group health and insurance trust fund for health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac, and who retired on or after August 22, 1996. The Trust was created as an Internal Revenue Code 501(c)(9) Trust (VEBA). The Trust issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the Trust at 700 Tower Drive, Suite 300, Troy, Michigan 48098.

The City is required by declaration of trust and agreement, dated August 22, 1996, to contribute on a percentage of covered payroll which the trustees have deemed to be based on actuarial recommended amounts. During the City's fiscal year ended June 30, 2018, the City did not make any contributions into the Trust, which is reported in the City's financial statements as a pension and other postemployment benefit trust fund.

Contributions that were scheduled to be made to the Trust for the years ended December 31, 2011 and 2010 in the amount of $2,635,156 and $2,104,382, respectively, were not remitted to the Trust by the City in those years. During 2011, the Trust filed a lawsuit against the plan sponsor to compel payment on past-due contributions. In March 2013, a settlement agreement was reached between the Trust and the plan sponsor, and the City remitted a payment for past-due contributions in the amount of $3,243,923. Contributions for 2012 are currently the subject of a separate lawsuit. No employer contributions have been made for fiscal years 2012 and later. As these years contributions may not be forthcoming, the contributions have not been reflected in the Trust's 2017 financial statements.

On April 4, 2017, the City of Pontiac, Michigan announced that a tentative settlement had been reached with regards to retiree health care. As of the date of this report, the settlement has been approved by the plaintiffs, the City, and the U.S. District Court. The settlement is still pending approval by the Internal Revenue Service. If fully approved, the settlement agreement would provide healthcare funding for all Pontiac retirees via the creation of a new VEBA by utilizing certain overfunded assets from the City of Pontiac General Employees' Retirement System and this Trust. In addition, this agreement would resolve the Trust's pending lawsuit against the City seeking payment of the FY 2012 annual contribution in the amount of $3,473,923.

Method Used to Value Investments. Investments are reported at estimated fair value. Money market funds and mutual fund investments are valued at net asset value. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis. In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation for the year is reflected in the statement of changes in trust net position. Investments that do not have an established market value are reported at estimated fair value as determined by the Trust's management. These estimates are determined using financial statements issued by the private equity companies in which such investments are held and adjusted by management as deemed appropriate based on known circumstances.

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

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on OPEB plan investments was 12.43%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Benefits Provided. The Trust provides health, optical, dental, and life insurance benefits for retirees who are members of the Police and Fire Retirement System of the City of Pontiac and retired on or after August 22, 1996. During 2013, the board of trustees passed a resolution to expand membership to retirees who retired prior to August 22, 1996. The pre-August 22, 1996 retirees were covered by the Trust effective September 1, 2013 through April 1, 2014. All such benefits are paid out of the Trust.

Contributions. Historically, the Trust has been primarily funded by employer contributions. The trustees voted to implement funding at the actuarial recommended rate beginning on July 1, 2006. However, scheduled contributions were not paid to the Trust by the City. Certain retirees are required to contribute toward the premiums paid on their behalf. Benefit expense for the year ended December 31, 2017 was $1,887,615, which is net of $694,858 in retiree contributions toward premiums.

Employees Covered by Benefit Terms. At December 31, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	177
Inactive employees entitled to but not yet receiving benefits	59
Other retirees who could elect	84
Total membership	320

Net OPEB Liability. The City's net OPEB liability was measured as of December 31, 2017.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Healthcare cost trend rate	9.0% decreasing 0.5% per year to an ultimate rate of 5% for 2026 and later years
Mortality	SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2017 improvement scale
Investment rate of return	7.50% net of OPEB plan investment expense, including inflation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	52.50%	5.64%
International equity	12.50%	6.91%
Domestic bonds	15.00%	1.93%
International bonds	5.00%	2.93%
Alternative assets	15.00%	5.72%
	100.00%	

Discount Rate. The discount rate used to measure the total OPEB liability at December 31, 2017 was 6.50 percent; however, the discount rate used to measure the total OPEB liability at the beginning of the year was 7.10 percent.

The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of inactive employees. Therefore, the discount rate incorporates a municipal bond rate which was 3.44 percent at December 31, 2017. The source of that bond rate was the Bond Buyer GO 20-Bond Municipal Bond Index. The long-term expected rate of return was applied to projected benefit payments from 2019 - 2055 and the municipal bond rate was applied to the remaining periods.

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2016	$ 41,644,716	$ 38,425,737	$ 3,218,979
Changes for the year:			
Interest	2,890,913	-	2,890,913
Differences between expected and actual experience	3,832,503	-	3,832,503
Changes of assumptions	551,988	-	551,988
Benefit payments, including refunds of employee contributions	(1,887,615)	(1,887,615)	-
Net investment income	-	4,508,528	(4,508,528)
Administrative expense	-	(95,449)	95,449
Other	-	845	(845)
Net changes	5,387,789	2,526,309	2,861,480
Balances at December 31, 2017	$ 47,032,505	$ 40,952,046	$ 6,080,459

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
City's net OPEB liability	$ 13,418,569	$ 6,080,459	$ 295,429

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend. The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 9.0%, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (8.0%) or 1% higher (10.0%) than the current rate:

	1% Decrease (8.0%)	Healthcare Cost Trend Rate (9.0%)	1% Increase (10.0%)
City's net OPEB liability	$ 17,060	$ 6,080,459	$ 13,574,064

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is provided in Note 16.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2018, the City recognized OPEB expense of $4,223,195. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 1,360,370	$ (1,360,370)

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

Year Ended June 30,	Amount
2019	$ (340,093)
2020	(340,093)
2021	(340,093)
2022	(340,091)
Total	$ (1,360,370)

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

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

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

Employees Covered by Benefit Terms. At December 31, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	716
Inactive employees entitled to but not yet receiving benefits	10
Total membership	726

Total OPEB Liability. The City is not prefunding the plan and the total OPEB liability at June 30, 2018 was $80,432,528.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Healthcare cost trend rate	9.0% decreasing 0.5% per year to an ultimate rate of 5% for 2026 and later years
Mortality	SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2017 improvement scale

Discount Rate. Because the OPEB plan does not have a dedicated trust, there are no assets projected to make projected future benefit payments. Therefore, the discount rate incorporates a municipal bond rate which was 3.44 percent at December 31, 2017. The source of that bond rate was the Bond Buyer GO 20-Bond Municipal Bond Index.

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

	Total OPEB Liability (a)
Balances at December 31, 2016	$ 87,932,108
Changes for the year:	
Interest	3,237,511
Differences between expected and actual experience	(6,518,093)
Changes of assumptions	391,102
Benefit payments, including refunds of employee contributions	(4,610,100)
Net changes	(7,499,580)
Balances at December 31, 2017	$ 80,432,528

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City, calculated using the discount rate of 3.44%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.44%) or 1% higher (4.44%) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
City's total OPEB liability	$ 92,338,435	$ 80,432,528	$ 70,934,864

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

	1% Decrease (8.0% Decreasing to 4.0%)	Healthcare Cost Trend Rate (9.0% Decreasing to 5.0%)	1% Increase (10.0% Decreasing to 6.0%)
City's total OPEB liability	$ 71,337,977	$ 80,432,528	$ 91,572,310

OPEB Expense. For the year ended June 30, 2018, the City recognized OPEB expense of ($2,889,480).

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

Notes to Financial Statements

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

	Plan Net Position as of December 31, 2017			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Assets				
Cash and cash equivalents	$ 367,968	$ 2,483,341	$ 959,914	$ 3,811,223
Investments at fair value:				
U.S. government obligations and agencies	-	-	1,806,994	1,806,994
Government agency notes and debentures	45,022,426	-	-	45,022,426
Mortgage-backed securities	-	-	1,026,819	1,026,819
Collateralized mortgage obligations	-	-	259,509	259,509
U.S. government securities	-	27,134,509	-	27,134,509
U.S. government mortgage-backed securities	24,433,223	4,487,418	-	28,920,641
Commercial paper	1,374,677	-	-	1,374,677
Commercial mortgage pools	2,902,745	-	-	2,902,745
Asset-backed securities	4,430,230	-	505,174	4,935,404
Corporate and other bonds	24,201,768	8,371,416	1,170,068	33,743,252
Foreign bonds and notes	-	-	97,947	97,947
Limited partnerships	61,350,425	31,417,198	5,991,834	98,759,457
Domestic stock	-	135,963,922	-	135,963,922
Short-term investments	14,337,034	2,005,360	1,435,952	17,778,346
Equities	-	-	27,194,818	27,194,818
Domestic equities	315,202,803	-	-	315,202,803
Private equities	12,513,071	-	-	12,513,071
Real estate	-	20,272,246	-	20,272,246
Real estate investment trusts	-	-	857,596	857,596
Accrued interest and dividends receivable	1,124,707	222,402	48,246	1,395,355
Due from broker	-	-	37,187	37,187
Other receivables	9,172	-	-	9,172
Due from Police and Fire Retirement System VEBA	-	86,983	-	86,983
Total assets	507,270,249	232,444,795	41,392,058	781,107,102

continued...

	Plan Net Position as of December 31, 2017			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Liabilities (continued)				
Due to City of Pontiac	$ -	$ -	$ 72,778	$ 72,778
Due to Police and Fire Retirement System	-	-	86,698	86,698
Accounts payable and other	833,572	223,654	280,536	1,337,762
Total liabilities	833,572	223,654	440,012	1,497,238
Net position restricted for pension and other employee benefits	$ 506,436,677	$ 232,221,141	$ 40,952,046	$ 779,609,864

concluded.

	Changes in Plan Net Position for the Year Ended December 31, 2017			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Additions				
Investment income:				
Interest and dividend income	$ 7,395,261	$ 4,082,300	$ 580,550	$ 12,058,111
Net increase in fair value	63,187,877	25,515,419	4,082,395	92,785,691
Less investment related expenses	(2,714,532)	(731,151)	(154,417)	(3,600,100)
Net investment income	67,868,606	28,866,568	4,508,528	101,243,702
Contributions - Employer	-	1,773,627	-	1,773,627
Miscellaneous and litigation revenue	29,291	5,188	845	35,324
Total additions	67,897,897	30,645,383	4,509,373	103,052,653

continued...

	Changes in Plan Net Position for the Year Ended December 31, 2017			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Deductions (continued)				
Retirees' pension benefits	$ 26,916,912	$ 21,170,946	$ -	$ 48,087,858
Retiree health benefit payments	-	-	1,887,615	1,887,615
Administrative expenses	696,340	310,593	95,449	1,102,382
Total deductions	27,613,252	21,481,539	1,983,064	51,077,855
Change in net position	40,284,645	9,163,844	2,526,309	51,974,798
Net position:				
Beginning of year	466,152,032	223,057,297	38,425,737	727,635,066
End of year	$ 506,436,677	$ 232,221,141	$ 40,952,046	$ 779,609,864

concluded.

17. CONTINGENT LIABILITIES

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

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

Board of Trustees Police and Fire VEBA vs. City of Pontiac. The City has been in litigation with the Police and Fire VEBA Board of Trustees relating to a prior Emergency Manager order allowing the City to not make the annual contribution to the VEBA Trust for the period ending June 30, 2012. Additionally, the City has been in litigation with the Retired Employees Association relating to changes in healthcare coverage.

On April 4, 2017, the City announced that a tentative settlement had been reached regarding retiree healthcare. As of the date of this report, the settlement has been approved by the plaintiffs, the City, and the U.S. District Court. The settlement is still pending approval by the Internal Revenue Service. Once fully approved, the settlement agreement will provide healthcare funding for all Pontiac retirees via the creation of a new VEBA by utilizing a portion of assets from the City of Pontiac General Employees' Retirement System and all assets from the Police and Fire VEBA trust. Per the tentative agreement, the City's contribution to the new VEBA will range from $3.5 million to $4.2 million depending on the outcome of an actuarial valuation. The City intends to utilize the assets of the Insurance internal service fund to make this contribution.

In addition, as part of this agreement, the Police and Fire VEBA Board of Trustees would have to dismiss its lawsuit against the City related to the fiscal year 2012 contribution not made in the amount of $3,473,923.

18. TAX ABATEMENTS

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

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to $127,049 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to $19,067 in reduced City tax revenues for the year.

The City also has entered into agreements under the State Housing Development Authority Act, PA 346 of 1966. Under this act, a municipality may allow a payment of a service charge in lieu of taxes to provide housing to elderly persons of low to moderate income. The abatements amounted to $479,826 in reduced City tax revenues for the year.

Finally, the City entered into agreements under the New Personal Property Tax Exemption Act, PA 328 of 1998, as amended. This act affords a 100% property tax exemption for specific businesses located within eligible distressed communities. The abatements amounted to $1,576,212 in reduced City tax revenues for the year.

Notes to Financial Statements

19. DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

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

	General	Major Streets	Local Streets	Sanitation	District Court	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable							
Prepaid items	$ 15,278	$ -	$ -	$ 1	$ 2,093	$ 51,731	$ 69,103
Restricted							
Roads	-	2,663,403	5,933,352	-	-	-	8,596,755
Drug enforcement	-	-	-	-	-	232,100	232,100
Capital projects	-	-	-	-	-	2,800,087	2,800,087
Sanitation	-	-	-	6,215,847	-	-	6,215,847
Senior activities	-	-	-	-	-	968,948	968,948
Community development	-	-	-	-	-	30,335	30,335
Home buyers assistance	-	-	-	-	-	3,638	3,638
Cable television	-	-	-	-	-	1,166,124	1,166,124
Telecommunications	-	-	-	-	-	58,105	58,105
Building inspection	-	-	-	-	-	437,825	437,825
Total restricted	-	2,663,403	5,933,352	6,215,847	-	5,697,162	20,509,764
Committed							
Youth recreation	3,200,000	-	-	-	-	110,751	3,310,751
Cemetery	-	-	-	-	-	62,773	62,773
Total committed	3,200,000	-	-	-	-	173,524	3,373,524
Assigned							
Phoenix Center Settlement	3,550,000	-	-	-	-	-	3,550,000
Unassigned	10,593,924	-	-	-	-	-	10,593,924
Total fund balances	$ 17,359,202	$ 2,663,403	$ 5,933,352	$ 6,215,848	$ 2,093	$ 5,922,417	$ 38,096,315

20. OPERATING LEASE

The City entered into a lease for a building under a non-cancelable operating lease. The first lease payment is due July 1, 2018. The future minimum lease payments for this lease are as follows:

Year Ended June 30,	Amount
2019	$ 312,000
2020	312,000
2021	312,000
	$ 936,000

Notes to Financial Statements

21. RESTATEMENT

The City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* in the current year. As a result of this change, beginning net position of governmental and business-type activities were decreased by $10,620,201 and $327,827, respectively. The beginning net position of the parking enterprise fund also decreased $327,827.

■ ■ ■ ■ ■

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

General Employees' Retirement System

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

	Year Ended June 30,			
	2018	2017	2016	2015
Change in total pension liability				
Service cost	$ 350,549	$ 324,671	$ 314,272	$ 279,187
Interest	17,598,425	17,944,933	19,232,034	19,973,828
Changes in benefit terms	10,658,814	-	5,407,365	-
Differences between expected and actual experience	871,705	5,189,027	(23,548,600)	(2,538,358)
Changes in assumptions	-	15,686,953	9,124,140	-
Benefit payments, including refunds of member contributions	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
Net change in total pension liability	2,562,581	12,026,050	(17,523,382)	(9,792,575)
Total pension liability, beginning	264,641,819	252,615,769	270,139,151	279,931,726
Total pension liability, ending (a)	267,204,400	264,641,819	252,615,769	270,139,151
Change in plan fiduciary net position				
Net investment income (loss)	67,868,606	34,606,547	(3,414,613)	29,460,854
Benefit payments, including refunds of member contributions	(26,916,912)	(27,119,534)	(28,052,593)	(27,507,232)
Administrative expense	(696,340)	(683,083)	(954,593)	(699,715)
Other	29,291	5,748	37,357	-
Net change in plan fiduciary net position	40,284,645	6,809,678	(32,384,442)	1,253,907
Plan fiduciary net position, beginning	466,152,032	459,342,354	491,726,796	490,472,889
Plan fiduciary net position, ending (b)	506,436,677	466,152,032	459,342,354	491,726,796
City's net pension asset, ending (a)-(b)	$ (239,232,277)	$ (201,510,213)	$ (206,726,585)	$ (221,587,645)
Plan fiduciary net position as a percentage of the total pension liability	189.53%	176.14%	181.83%	182.03%
Covered payroll	$ 1,450,352	$ 1,540,472	$ 1,528,731	$ 1,478,241
City's net pension asset as a percentage of covered payroll	16,494.77%	13,081.07%	13,522.76%	14,989.95%

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

Required Supplementary Information

General Employees' Retirement System

Schedule of the Net Pension Asset

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Asset as Percentage of Payroll
2015	$ 270,139,151	$ 491,726,796	$ (221,587,645)	182.03%	$ 1,478,241	14,989.95%
2016	252,615,769	459,342,354	(206,726,585)	181.83%	1,528,731	13,522.76%
2017	264,641,819	466,152,032	(201,510,213)	176.14%	1,540,472	13,081.07%
2018	267,204,400	506,436,677	(239,232,277)	189.53%	1,450,352	16,494.77%

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

Required Supplementary Information

General Employees' Retirement System

Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	$ -	$ -	$ -	$ 1,478,241	0.0%
2016	-	-	-	1,528,731	0.0%
2017	-	-	-	1,540,472	0.0%
2018	-	-	-	1,450,352	0.0%

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

Notes to Schedule of Contributions

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years and a half years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.6 - 7.4% (includes inflation)
Investment rate of return	7.0%
Retirement age	Age-based table of rates are specific to the type of eligibility condition
Mortality rates	The RP-2014 Health Annuitant Mortality Table (unadjusted) projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scales

Required Supplementary Information

General Employees' Retirement System

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return [1]
2015	6.76%
2016	-0.84%
2017	7.79%
2018	15.31%

[1] Annual money-weighted rate of return, net of investment expenses

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

CITY OF PONTIAC, MICHIGAN

Required Supplementary Information

Police and Fire Retirement System

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

	Year Ended June 30,			
	2018	2017	2016	2015
Change in total pension liability				
Interest	$ 18,015,944	$ 18,142,691	$ 17,667,136	$ 17,801,885
Changes in benefit terms	765,616	780,417	1,179,108	-
Differences between expected and actual experience	(575,621)	2,964,382	4,777,253	67,662
Changes in assumptions	(606,903)	(2,147,637)	3,437,195	-
Benefit payments, including refunds of member contributions	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
Net change in total pension liability	(3,571,910)	(1,948,830)	7,309,438	(1,711,593)
Total pension liability, beginning	250,798,054	252,746,884	245,437,446	247,149,039
Total pension liability, ending (a)	247,226,144	250,798,054	252,746,884	245,437,446
Change in plan fiduciary net position				
Contributions - employer	1,773,627	2,041,923	2,327,949	901,797
Net investment income	28,866,568	18,343,180	1,600,942	15,235,786
Benefit payments, including refunds of member contributions	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
Administrative expense	(310,593)	(300,220)	(328,225)	(332,389)
Other	5,188	25,735	1,020	40,671
Net change in plan fiduciary net position	9,163,844	(1,578,065)	(16,149,568)	(3,735,275)
Plan fiduciary net position, beginning	223,057,297	224,635,362	240,784,930	244,520,205
Plan fiduciary net position, ending (b)	232,221,141	223,057,297	224,635,362	240,784,930
City's net pension liability, ending (a)-(b)	$ 15,005,003	$ 27,740,757	$ 28,111,522	$ 4,652,516
Plan fiduciary net position as a percentage of the total pension liability	93.93%	88.94%	88.88%	98.10%
Covered payroll	$ -	$ -	$ -	$ -
City's net pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

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

Required Supplementary Information

Police and Fire Retirement System

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	$245,437,446	$ 240,784,930	$ 4,652,516	98.10%	$ -	0.00%
2016	252,746,884	224,635,362	28,111,522	88.88%	-	0.00%
2017	250,798,054	223,057,297	27,740,757	88.94%	-	0.00%
2018	247,226,144	232,221,141	15,005,003	93.93%	-	0.00%

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

Required Supplementary Information
Police and Fire Retirement System

Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	$ 901,797	$ 901,797	$ -	$ -	0.0%
2016	2,327,949	2,327,949	-	-	0.0%
2017	2,041,923	2,041,923	-	-	0.0%
2018	1,773,627	1,773,627	-	-	0.0%

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

Notes to Schedule of Contributions

Valuation date — Actuarially determined contribution rates are calculated as of June 30, two and a half years prior to the end of the fiscal year in which the contributions are reported. The most recent valuation is as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	20% write-up
Inflation	0.0%
Salary increases	N/A
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Retirement age	Experience-based table of rates to the type of eligibility condition
Mortality rates	RP-2014 Blue Collar, with general improvements using MP-2017 scale
Other information	Cost-of-living adjustments are 2.0% of original pension amounts at retirement for certain plan members and applied to years of retirement

Required Supplementary Information
Police and Fire Retirement System

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return [1]
2015	6.22%
2016	0.38%
2017	9.86%
2018	14.25%

[1] Annual money-weighted rate of return

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

Required Supplementary Information

Police and Fire Retirement System VEBA

Schedule of Changes in Net OPEB Liability and Related Ratios

	Year Ended June 30, 2018
Total OPEB liability	
Interest on total OPEB liability	$ 2,890,913
Difference between expected and actual experience	3,832,503
Changes of assumptions	551,988
Benefit payments	(1,887,615)
Net change in total OPEB liability	5,387,789
Total OPEB liability, beginning of year	41,644,716
Total OPEB liability, end of year	47,032,505
Plan fiduciary net position	
Benefit payments	(1,887,615)
OPEB plan net investment income	4,508,528
Administrative expense	(95,449)
Other	845
Net change in plan fiduciary net position	2,526,309
Plan fiduciary net position, beginning of year	38,425,737
Plan fiduciary net position, end of year	40,952,046
Net OPEB liability	$ 6,080,459
Plan fiduciary net position as a percentage of total OPEB liability	87.07%

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

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

Required Supplementary Information
Police and Fire Retirement System VEBA

Schedule of the Net OPEB Liability

Fiscal Year Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Asset	Plan Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Asset as Percentage of Covered Payroll
2018	$ 47,032,505	$ 40,952,046	$ 6,080,459	87.07%	n/a	n/a

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

Required Supplementary Information
Police and Fire Retirement System VEBA

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	$ 287,012	$ -	$ 287,012	n/a	n/a

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

Notes to Schedule of Contributions

Notes	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine rates:

Actuarial cost method	Entry-age normal, level % of salary
Amortization method	Level dollar, closed
Remaining amortization period	28 years
Asset valuation method	Market value
Inflation	2.75%
Health care trend rates	9.0% decreasing 0.5% per year to an ultimate rate of 5.0% for 2026 and later years
Investment rate of return	7.75%, net of OPEB plan investment expense, including inflation
Mortality	SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2017 improvement scale

Required Supplementary Information
Police and Fire Retirement System VEBA

Schedule of Investment Returns

Fiscal Year Ending June 30,	Annual Return [1]
2018	12.43%

[1] Annual money-weighted rate of return, net of investment expenses

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

Required Supplementary Information
Retiree Health Care Plan

Schedule of Changes in Total OPEB Liability and Related Ratios

	Year Ended June 30, 2018
Total OPEB liability	
Interest on total OPEB liability	$ 3,237,511
Difference between expected and actual experience	(6,518,093)
Changes of assumptions	391,102
Benefit payments	(4,610,100)
Net change in total OPEB liability	(7,499,580)
Total OPEB liability, beginning of year	87,932,108
Total OPEB liability, end of year	$ 80,432,528
Covered-employee payroll	n/a
Total OPEB liability as a percentage of covered-employee payroll	n/a

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

Note: Changes of assumptions include mortality table improvement scale updated from SS 2016 improvement scale to SS 2017 improvement scale and healthcare trend rates reset to an initial rate of 9.0% for pre-Medicare and 7.0% for Medicare, decreasing by 0.5% annually to an ultimate rate of 5.0% for pre-Medicare and 4.0% for Medicare.

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

Required Supplementary Information
Retiree Health Care Plan

Schedule of the Total OPEB Liability

Fiscal Year Ending June 30,	Total OPEB Liability	Covered Payroll	Total OPEB Liability as Percentage of Covered Payroll
2018	$ 80,432,528	n/a	n/a

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

This page intentionally left blank.

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes and special assessments	$ 7,761,884	$ 7,761,884	$ 8,568,554	$ 806,670
Income taxes	13,009,008	13,009,008	13,314,704	305,696
Federal revenue	101,000	101,000	116,621	15,621
State revenue	9,587,142	9,587,142	9,938,812	351,670
Charges for services	1,275,985	1,275,985	1,058,769	(217,216)
Fines and forfeitures	104,000	104,000	30,301	(73,699)
Licenses and permits	225,000	270,000	183,326	(86,674)
Interest and rental revenue	246,000	246,000	429,812	183,812
Other revenue	2,379,392	2,379,392	1,600,840	(778,552)
Total revenues	34,689,411	34,734,411	35,241,739	507,328
Expenditures				
Current:				
General government	4,895,199	4,987,316	4,210,021	(777,295)
Public safety	19,420,651	19,420,651	19,311,559	(109,092)
Public works	1,873,819	2,191,284	2,075,862	(115,422)
Health and welfare	150,000	101,310	-	(101,310)
Community and economic development	2,686,967	2,630,397	1,812,619	(817,778)
Recreation and culture	701,757	986,979	407,439	(579,540)
Retiree fringe benefits	3,662,557	2,412,557	2,412,557	-
Total expenditures	33,390,950	32,730,494	30,230,057	(2,500,437)
Revenues over expenditures	1,298,461	2,003,917	5,011,682	3,007,765
Other financing sources (uses)				
Transfers in	220,000	220,000	200,000	(20,000)
Transfers out	(3,964,563)	(5,214,563)	(4,926,255)	(288,308)
Total other financing sources (uses)	(3,744,563)	(4,994,563)	(4,726,255)	268,308
Net change in fund balance	(2,446,102)	(2,990,646)	285,427	3,276,073
Fund balance, beginning of year	17,073,775	17,073,775	17,073,775	-
Fund balance, end of year	$ 14,627,673	$ 14,083,129	$ 17,359,202	$ 3,276,073

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule

Major Streets Special Revenue Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	$ 4,599,620	$ 4,599,620	$ 4,659,739	$ 60,119
Interest	20,000	20,000	17,442	(2,558)
Other revenue	-	-	959,454	959,454
Total revenues	4,619,620	4,619,620	5,636,635	1,017,015
Expenditures				
Public works	7,350,767	8,050,767	6,819,857	(1,230,910)
Revenues under expenditures	(2,731,147)	(3,431,147)	(1,183,222)	2,247,925
Other financing sources (uses)				
Transfers in	1,500,000	2,200,000	1,500,000	(700,000)
Transfers out	(471,000)	(471,000)	(471,000)	-
Total other financing sources (uses)	1,029,000	1,729,000	1,029,000	(700,000)
Net change in fund balance	(1,702,147)	(1,702,147)	(154,222)	1,547,925
Fund balance, beginning of year	2,817,625	2,817,625	2,817,625	-
Fund balance, end of year	$ 1,115,478	$ 1,115,478	$ 2,663,403	$ 1,547,925

CITY OF PONTIAC, MICHIGAN

Budgetary Comparison Schedule
Local Streets Special Revenue Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	$ 1,401,790	$ 1,401,790	$ 1,580,296	$ 178,506
Interest	12,500	12,500	24,010	11,510
Total revenues	1,414,290	1,414,290	1,604,306	190,016
Expenditures				
Public works	5,142,427	5,728,042	1,955,142	(3,772,900)
Revenues under expenditures	(3,728,137)	(4,313,752)	(350,836)	3,962,916
Other financing sources				
Transfers in	2,021,000	2,721,000	2,021,000	(700,000)
Net change in fund balance	(1,707,137)	(1,592,752)	1,670,164	3,262,916
Fund balance, beginning of year	4,263,188	4,263,188	4,263,188	-
Fund balance, end of year	$ 2,556,051	$ 2,670,436	$ 5,933,352	$ 3,262,916

Budgetary Comparison Schedule

Sanitation Special Revenue Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes and special assessments	$ 1,630,474	$ 1,630,474	$ 1,974,904	$ 344,430
Charges for services	1,765,000	1,765,000	1,869,072	104,072
Interest	11,000	11,000	33,133	22,133
Total revenues	3,406,474	3,406,474	3,877,109	470,635
Expenditures				
Public works	4,034,334	4,034,334	3,360,995	(673,339)
Net change in fund balance	(627,860)	(627,860)	516,114	1,143,974
Fund balance, beginning of year	5,699,734	5,699,734	5,699,734	-
Fund balance, end of year	$ 5,071,874	$ 5,071,874	$ 6,215,848	$ 1,143,974

Budgetary Comparison Schedule

District Court Special Revenue Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	$ 182,896	$ 182,896	$ 182,896	$ -
Charges for services	668,745	668,745	701,763	33,018
Fines and forfeitures	1,027,090	1,027,090	1,000,177	(26,913)
Interest	1,600	1,600	1,463	(137)
Total revenues	1,880,331	1,880,331	1,886,299	5,968
Expenditures				
District court	3,274,894	3,274,894	3,011,125	(263,769)
Revenues under expenditures	(1,394,563)	(1,394,563)	(1,124,826)	269,737
Other financing sources (uses)				
Transfers in	1,414,563	1,414,563	1,126,255	(288,308)
Transfers out	(20,000)	(20,000)	-	(20,000)
Total other financing sources (uses)	1,394,563	1,394,563	1,126,255	(268,308)
Net change in fund balance	-	-	1,429	1,429
Fund balance, beginning of year	664	664	664	-
Fund balance, end of year	$ 664	$ 664	$ 2,093	$ 1,429

Note to Required Supplementary Information

1. BUDGETARY INFORMATION

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

Budget requests are reviewed by the budget department, finance department and executive office. The final budget is adopted by June 30 each year. City Council adopted the final budget for the June 30, 2018 year end.

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

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

During the year, the City did not incur any expenditures in excess of amounts appropriated.

■ ■ ■ ■ ■

OTHER SUPPLEMENTAL INFORMATION

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds				
	Youth Recreation	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
Assets					
Cash and investments	$ 124,434	$ 58,105	$ -	$ 30,335	$ 3,638
Accounts receivable	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-
Interest receivable	-	-	-	-	-
Prepaids	51,000	-	-	-	-
Total assets	$ 175,434	$ 58,105	$ -	$ 30,335	$ 3,638
Liabilities					
Accounts payable	$ 9,704	$ -	$ -	$ -	$ -
Accrued wages	3,979	-	-	-	-
Due to other governments	-	-	-	-	-
Deposits payable	-	-	-	-	-
Total liabilities	13,683	-	-	-	-
Deferred inflows of resources					
Unavailable revenue	-	-	-	-	-
Fund balances					
Nonspendable	51,000	-	-	-	-
Restricted	-	58,105	-	30,335	3,638
Committed	110,751	-	-	-	-
Total fund balances	161,751	58,105	-	30,335	3,638
Total liabilities, deferred inflows of resources and fund balances	$ 175,434	$ 58,105	$ -	$ 30,335	$ 3,638

Special Revenue Funds					Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Cemetery Fund	Capital Improvement	Total
$ 998,214	$ 233,094	$ 1,131,349	$ 574,337	$ 100,368	$ 2,868,794	$ 6,122,668
-	-	37,869	-	-	-	37,869
3,008	-	-	-	-	8,204	11,212
669	258	528	180	-	4,404	6,039
538	-	1	17	175	-	51,731
$ 1,002,429	$ 233,352	$ 1,169,747	$ 574,534	$ 100,543	$ 2,881,402	$ 6,229,519
$ 9,157	$ 1,252	$ 152	$ 136,692	$ 37,249	$ 33,892	$ 228,098
6,260	-	3,470	-	346	-	14,055
14,489	-	-	-	-	41,111	55,600
700	-	-	-	-	-	700
30,606	1,252	3,622	136,692	37,595	75,003	298,453
2,337	-	-	-	-	6,312	8,649
538	-	1	17	175	-	51,731
968,948	232,100	1,166,124	437,825	-	2,800,087	5,697,162
-	-	-	-	62,773	-	173,524
969,486	232,100	1,166,125	437,842	62,948	2,800,087	5,922,417
$ 1,002,429	$ 233,352	$ 1,169,747	$ 574,534	$ 100,543	$ 2,881,402	$ 6,229,519

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds				
	Youth Recreation	PA-48 Tele-communication Allocation	Chapter 20 Drain	Community Development Block Grant	Home Buyers Assistance
Revenues					
Property taxes and special assessments	$ -	$ -	$ -	$ -	$ -
State revenue	-	224,145	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Licenses and permits	-	500	-	-	-
Interest and rental revenue	-	-	-	-	-
Other revenue	-	-	-	24,000	-
Total revenues	-	224,645	-	24,000	-
Expenditures					
Current expenditures:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	32,813	-	-
Community and human services	-	-	-	-	-
Recreation and culture	238,249	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	238,249	-	32,813	-	-
Revenues over (under) expenditures	(238,249)	224,645	(32,813)	24,000	-
Other financing sources (uses)					
Transfers in	400,000	-	-	-	-
Transfers out	-	(200,000)	-	-	-
Total other financing sources (uses)	400,000	(200,000)	-	-	-
Net change in fund balances	161,751	24,645	(32,813)	24,000	-
Fund balances, beginning of year	-	33,460	32,813	6,335	3,638
Fund balances, end of year	$ 161,751	$ 58,105	$ -	$ 30,335	$ 3,638

Special Revenue Funds					Capital Projects	
Senior Activities	Drug Enforcement Fund	Cable Fund	Building Inspection Fund	Cemetery Fund	Capital Improvement	Total
$ 344,623	$ -	$ -	$ -	$ -	$ 993,800	$ 1,338,423
-	-	-	-	-	-	224,145
-	-	-	72,925	-	-	72,925
-	43,671	-	-	-	-	43,671
-	-	-	2,289,086	-	-	2,289,586
17,636	882	6,129	922	-	23,706	49,275
-	-	152,411	-	41,456	-	217,867
362,259	44,553	158,540	2,362,933	41,456	1,017,506	4,235,892
-	-	128,672	-	258,278	-	386,950
-	40,978	-	2,184,715	-	-	2,225,693
-	-	-	-	-	-	32,813
365,160	-	-	-	-	-	365,160
-	-	-	-	-	-	238,249
-	-	-	-	-	647,941	647,941
365,160	40,978	128,672	2,184,715	258,278	647,941	3,896,806
(2,901)	3,575	29,868	178,218	(216,822)	369,565	339,086
-	-	-	-	100,000	-	500,000
-	-	-	-	-	(1,000,000)	(1,200,000)
-	-	-	-	100,000	(1,000,000)	(700,000)
(2,901)	3,575	29,868	178,218	(116,822)	(630,435)	(360,914)
972,387	228,525	1,136,257	259,624	179,770	3,430,522	6,283,331
$ 969,486	$ 232,100	$ 1,166,125	$ 437,842	$ 62,948	$ 2,800,087	$ 5,922,417

Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Assets				
Current assets:				
Cash and investments	$ 2,140,307	$ 1,257,757	$ 432,232	$ 3,830,296
Accounts receivable	64,039	328,613	-	392,652
Due from other governments	-	72,165	-	72,165
Interest receivable	33	-	-	33
Prepaids	55,298	3,990,998	-	4,046,296
Total assets	2,259,677	5,649,533	432,232	8,341,442
Liabilities				
Current liabilities:				
Accounts payable	24,220	35,242	-	59,462
Accrued liabilities	1,055,669	492,720	-	1,548,389
Accrued wages	-	1,512	-	1,512
Current portion of compensated absences	-	-	138,501	138,501
Total current liabilities	1,079,889	529,474	138,501	1,747,864
Noncurrent liabilities - Compensated absences	-	-	293,731	293,731
Total liabilities	1,079,889	529,474	432,232	2,041,595
Net position				
Unrestricted	$ 1,179,788	$ 5,120,059	$ -	$ 6,299,847

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

Internal Service Funds
For the Year Ended June 30, 2018

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	$ 276,980	$ 5,077,317	$ -	$ 5,354,297
Operating expenses				
Insurance	-	5,270,933	-	5,270,933
Workers' compensation expense - net of change in liability	(263,764)	-	-	(263,764)
Miscellaneous expense	-	-	2,310	2,310
Total operating expenses	(263,764)	5,270,933	2,310	5,009,479
Operating income (loss)	540,744	(193,616)	(2,310)	344,818
Nonoperating revenue				
Interest income	13,372	-	2,310	15,682
Income (loss) before transfers	554,116	(193,616)	-	360,500
Transfers in	-	1,250,000	-	1,250,000
Change in net position	554,116	1,056,384	-	1,610,500
Net position, beginning of year	625,672	4,063,675	-	4,689,347
Net position, end of year	$ 1,179,788	$ 5,120,059	$ -	$ 6,299,847

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities				
Cash received from interfund services	$ 273,256	$ 5,073,835	$ (2,310)	$ 5,344,781
Cash payments for goods and services	(285,374)	(5,510,740)	-	(5,796,114)
Cash payments to employees	-	(36,008)	(19,454)	(55,462)
Net cash provided by operating activities	(12,118)	(472,913)	(21,764)	(506,795)
Cash flows from noncapital financing activities				
Transers in	-	1,250,000	-	1,250,000
Cash flows from investing activities				
Interest income received	13,372	-	2,310	15,682
Net change in cash and investments	1,254	777,087	(19,454)	758,887
Cash and investments, beginning of year	2,139,053	480,670	451,686	3,071,409
Cash and investments, end of year	$ 2,140,307	$ 1,257,757	$ 432,232	$ 3,830,296
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ 540,744	$ (193,616)	$ (2,310)	$ 344,818
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Change in:				
Accounts receivable	(3,724)	(3,482)	-	(7,206)
Due from other governments	-	(45,930)	-	(45,930)
Interest receivable	(33)	-	-	(33)
Prepaids	(2,755)	(24,312)	-	(27,067)
Accounts payable	7,153	(378)	-	6,775
Accrued liabilities	(553,503)	(204,954)	-	(758,457)
Accrued wages	-	(241)	-	(241)
Compensated absences	-	-	(19,454)	(19,454)
Net cash provided (used) by operating activities	$ (12,118)	$ (472,913)	$ (21,764)	$ (506,795)

CITY OF PONTIAC, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2018

	District Court-Agency	Current Tax Collection	Fire Insurance	Total
Assets				
Cash and cash equivalents	$ 60,236	$ 47,585	$ 1,448,619	$ 1,556,440
Liabilities				
Accounts payable	$ -	$ 24,289	$ -	$ 24,289
Due to other governments	-	23,296	-	23,296
Deposits payable	60,236	-	1,448,619	1,508,855
Total liabilities	$ 60,236	$ 47,585	$ 1,448,619	$ 1,556,440

CITY OF PONTIAC, MICHIGAN

Combining Balance Sheet

Component Units
June 30, 2018

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Assets					
Cash and investments	$ 12,620	$ 283,730	$ 296,350	$ 262,531	$ 558,881
Property taxes receivable - net	798	9,066	9,864	-	9,864
Total assets	$ 13,418	$ 292,796	$ 306,214	$ 262,531	$ 568,745
Liabilities					
Accounts payable	$ -	$ -	$ -	$ 29,163	$ 29,163
Due to other governments	12,618	36,740	49,358	46	49,404
Financial guarantee	2,442,579	1,577,904	4,020,483	-	4,020,483
Total liabilities	2,455,197	1,614,644	4,069,841	29,209	4,099,050
Deferred inflows of resources					
Unavailable revenue	798	9,066	9,864	-	9,864
Fund balances					
Unassigned (deficit)	(2,442,577)	(1,330,914)	(3,773,491)	233,322	(3,540,169)
Total liabilities, deferred inflows of resources and fund balances	$ 13,418	$ 292,796	$ 306,214	$ 262,531	$ 568,745

Reconciliation
Fund Balances for Governmental Funds
to Net Position of Governmental Activities
Component Units
For the Year Ended June 30, 2018

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Fund balances (deficits) for component units	$ (2,442,577)	$ (1,330,914)	$ (3,773,491)	$ 233,322	$ (3,540,169)
Amounts reported for *component units* in the statement of net position are different because:					
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.					
Unavailable property taxes receivable	798	9,065	9,863	-	9,863
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.	-	554,349	554,349	-	554,349
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	(14,186)	(149,606)	(163,792)	-	(163,792)
Bonds payable	(1,830,000)	(19,320,000)	(21,150,000)	-	(21,150,000)
Net position for component units	$ (4,285,965)	$ (20,237,106)	$ (24,523,071)	$ 233,322	$ (24,289,749)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Component Units
For the Year Ended June 30, 2018

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Revenues					
Taxes	$ 83,493	$ 1,499,879	$ 1,583,372	$ 35,450	$ 1,618,822
Contributions from primary government	292,828	463,764	756,592	-	756,592
Total revenues	376,321	1,963,643	2,339,964	35,450	2,375,414
Expenditures					
Commercial and industrial development	-	-	-	59,272	59,272
Financial guarantee	292,828	463,764	756,592	-	756,592
Debt service:					
Principal	280,000	1,025,000	1,305,000	-	1,305,000
Interest and fiscal charges	96,319	938,644	1,034,963	-	1,034,963
Total expenditures	669,147	2,427,408	3,096,555	59,272	3,155,827
Net change in fund balances	(292,826)	(463,765)	(756,591)	(23,822)	(780,413)
Fund balances (deficit), beginning of year	(2,149,751)	(867,149)	(3,016,900)	257,144	(2,759,756)
Fund balances (deficit), end of year	$ (2,442,577)	$ (1,330,914)	$ (3,773,491)	$ 233,322	$ (3,540,169)

Reconciliation
Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
Component Units
June 30, 2018

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Net change in fund balance - component units	$ (292,826)	$ (463,765)	$ (756,591)	$ (23,822)	$ (780,413)
Amounts reported for *component units* in the statement of activities are different because:					
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	-	(16,494)	(16,494)	-	(16,494)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.					
Principal payments on long-term liabilities	280,000	1,025,000	1,305,000	-	1,305,000
Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.					
Change in accrued interest on bonds	1,867	6,834	8,701	-	8,701
Change in deferred loss on refunding	-	(42,642)	(42,642)	-	(42,642)
Change in net position of component units	$ (10,959)	$ 508,933	$ 497,974	$ (23,822)	$ 474,152

This page intentionally left blank.

Rehmann

Rehmann Robson

1500 W. Big Beaver Rd.
2nd Floor
Troy, MI 48084
P: 248.952.5000
F: 248.952.5750
rehmann.com

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 19, 2018

To the Honorable Mayor and City Council
City of Pontiac
Pontiac, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2018. Our report includes a reference to other auditors who audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System VEBA and the Police and Fire Retirement System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System VEBA and the Police and Fire Retirement System were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of Pontiac's Response to Findings

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

Purpose of this Report

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

Rehmann Robson LLC

Schedule of Findings and Responses

For the Year Ended June 30, 2018

2018-001 – Audit Adjustment

Finding Type: Significant Deficiency 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 an audit adjustment (which was approved and posted by management) to adjust the City's general ledger to the appropriate balances. Specifically, accounts payable in the district court fund was initially understated by approximately $22,000.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end balances.

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

Recommendation: Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustment.

View of Responsible Official: We agree with the proposed adjustments and have posted them to the general ledger.

■ ■ ■ ■ ■

This page intentionally left blank.

Rehmann

Rehmann Robson

1500 W. Big Beaver Rd.
2nd Floor
Troy, MI 48084
P: 248.952.5000
F: 248.952.5750
rehmann.com

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

December 19, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac* (the "City") as of and for the year ended June 30, 2018, and have issued our report thereon dated December 19, 2018. We did not audit the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System VEBA, and the Police and Fire Retirement System. 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 VEBA, and the Police and Fire Retirement System, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 4, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided a finding regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 19, 2018.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on September 24, 2018.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

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

As described in Note 21 to the financial statements, the City changed accounting policies related to other postemployment benefit plans by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management's estimate of 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 and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

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

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Upcoming Changes in Accounting Standards

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

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

Very truly yours,

Rehmann Robson LLC

Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2018 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 “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 83 ■ Certain Asset Retirement Obligations

Effective 06/15/2019 (your FY 2019)

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the City.

GASB 84 ■ Fiduciary Activities

Effective 12/15/2019 (your FY 2020)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the City.

GASB 85 ■ Omnibus 2017

Effective 06/15/2018 (your FY 2018)

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

GASB 86 ■ Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the City.

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2021)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

■ Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2018 Audit

GASB 88 ■ Certain Disclosures Related to Debt

Effective 06/15/2019 (your FY 2019)

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the City.

GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period

Effective 12/15/2020 (your FY 2021)

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the City.

GASB 90 ■ Majority Equity Interests

Effective 12/15/2019 (your FY 2020)

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the City.

■ ■ ■ ■ ■

Attachment B – Management Representations

For the June 30, 2018 Audit

Following are the written representations that we requested from management.

DR. DEIRDRE WATERMAN
MAYOR
CITY OF PONTIAC

December 19, 2018

Rehmann Robson
675 Robinson Road
Jackson, MI 49203

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Pontiac, Michigan*** (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund of the City in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 19, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 4, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

47450 Woodward Avenue • Pontiac, Michigan 48342
Direct: (248) 758-3181 • Appointments: (248) 758-3326 • Fax: (248) 758-3292
E-mail: DWaterman@pontiac.mi.us • www.pontiac.mi.us
https://www.facebook.com/pontiacmayor/

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

Information Provided

21. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
26. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
27. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
28. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
29. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
31. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
32. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
33. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
34. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to

volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

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

Required Supplementary Information

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

Deirdre Waterman

Deirdre Waterman, Mayor

Jane Bais DiSessa

Jane Bais-DiSessa, Deputy Mayor

CITY OF PONTIAC, MICHIGAN

Schedule of Adjustments Passed (SOAP)

For the June 30, 2018 Audit

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

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
Parking fund					
	$ -	$ (28,368)	$ -	$ -	$ (28,368)
Misstatement as a percentage of total liabilities - parking fund	0.000%	-3.737%	0.000%	0.000%	-3.737%
Agency fund					
Open bond listing variance	$ (15,300)	$ (15,300)	$ -	$ -	$ -