

City of Pontiac,  
Michigan



Year Ended  
June 30, 2019

Financial  
Statements

This page intentionally left blank.

# CITY OF PONTIAC, MICHIGAN

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
17	15
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Reconciliation of Fund Balances of Governmental Funds to	
Net Position of Governmental Activities	25
Statement of Revenues, Expenditures and Changes in Fund Balances -	
Governmental Funds	26
Reconciliation of Net Changes in Fund Balances of Governmental Funds to	
Changes in Net Position of Governmental Activities	29
Statement of Net Position - Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Fund	
Net Position - Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	32
Statement of Fiduciary Net Position	34
Statement of Changes in Fiduciary Net Position	36
Combining Statement of Net Position - Discretely Presented Component Units	37
Combining Statement of Activities - Discretely Presented Component Units	38
Notes to Financial Statements	39
Required Supplementary Information	
General Employees' Retirement System	92
Police and Fire Retirement System	96
Police and Fire Retirement System VEBA	100
Retiree Health Care Plan	104
Budgetary Comparison Schedule - General Fund	106
Budgetary Comparison Schedule - Major Streets Special Revenue Fund	107
Budgetary Comparison Schedule - Local Streets Special Revenue Fund	108
Budgetary Comparison Schedule - Sanitation Special Revenue Fund	109
Budgetary Comparison Schedule - District Court Special Revenue Fund	110
Note to Required Supplementary Information	111

# CITY OF PONTIAC, MICHIGAN

## Table of Contents

	<u>Page</u>
<b>Other Supplemental Information</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	114
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	116
Internal Service Funds:	
Combining Statement of Net Position	118
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	119
Combining Statement of Cash Flows	120
Agency Funds -	
Combining Statement of Fiduciary Assets and Liabilities	121
Component Units:	
Combining Balance Sheet	122
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	123
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	124
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	125
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	127



## INDEPENDENT AUDITORS' REPORT

December 23, 2019

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, 2019, 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, 2019, 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.

### *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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 23, 2019, 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.

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

This page intentionally left blank.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF PONTIAC, MICHIGAN

## 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, 2019. 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	\$277,958,210
· Change in total net position	24,368,559
· Fund balances, governmental funds	39,006,115
· Change in fund balances, governmental funds	909,800
· Unassigned fund balance, general fund	12,554,802
· Change in fund balance, general fund	1,162,861
· Long-term debt outstanding	8,807,480
· Change in long-term debt	(8,061,156)

### 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.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

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

The City maintains numerous individual governmental funds. Information is presented separately for each major fund (general, major streets, 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.

In compliance with the City's budget ordinance, the City prepared a three-year budget for fiscal years 2018-19, 2019-20, and 2020-21. The City Council of the City of Pontiac adopted the 2018-19 fiscal year budget by function. This allows City officials responsible for the expenditures authorized in the budget to expend City funds up to, but not to exceed, the total appropriation authorized for each function. A budgetary comparison schedule has been provided for the General Fund and each major special revenue fund to demonstrate compliance with this budget.

The City has received the Government Finance Officers Association award for Distinguished Budget Presentation for fiscal years 2017-18 and 2018-19. The City has applied for the award again in fiscal year 2020. That 2020 budget document includes a five-year balanced budget for fiscal years 2019-20, 2020-21, 2021-22, 2022-23, and 2023-24.

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

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

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

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

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

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

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

### Government-wide Overall Financial Analysis

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

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current and other assets	\$ 248,202,241	\$ 293,063,859	\$ 4,243,230	\$ 5,066,635	\$ 252,445,471	\$ 298,130,494
Capital assets, net	91,319,437	89,438,932	9,292,755	9,857,616	100,612,192	99,296,548
<b>Total assets</b>	<b>339,521,678</b>	<b>382,502,791</b>	<b>13,535,985</b>	<b>14,924,251</b>	<b>353,057,663</b>	<b>397,427,042</b>
<b>Deferred outflows of resources</b>	<b>50,890,759</b>	<b>2,412,557</b>	<b>391,169</b>	<b>-</b>	<b>51,281,928</b>	<b>2,412,557</b>
<b>Liabilities</b>						
Current and other liabilities	115,918,067	107,948,776	468,961	994,666	116,387,028	108,943,442
Long-term debt outstanding	8,807,480	16,868,636	-	-	8,807,480	16,868,636
<b>Total liabilities</b>	<b>124,725,547</b>	<b>124,817,412</b>	<b>468,961</b>	<b>994,666</b>	<b>125,194,508</b>	<b>125,812,078</b>
<b>Deferred inflows of resources</b>	<b>1,165,954</b>	<b>20,256,532</b>	<b>20,919</b>	<b>181,338</b>	<b>1,186,873</b>	<b>20,437,870</b>
<b>Net position:</b>						
Investment in capital assets	91,319,437	89,438,932	9,292,755	9,857,616	100,612,192	99,296,548
Restricted	239,473,682	241,993,682	2,219,753	2,251,608	241,693,435	244,245,290
Unrestricted (deficit)	(66,272,183)	(91,591,210)	1,924,766	1,639,023	(64,347,417)	(89,952,187)
<b>Total net position</b>	<b>\$ 264,520,936</b>	<b>\$ 239,841,404</b>	<b>\$ 13,437,274</b>	<b>\$ 13,748,247</b>	<b>\$ 277,958,210</b>	<b>\$ 253,589,651</b>

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 \$277,958,210 at the close of the most recent fiscal year. \$100,612,192 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, \$241,693,435, represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$64,347,417) is unrestricted and could be used to meet the government's ongoing obligations to its citizens and creditors.

The City's overall net position increased by \$24,368,559 from the prior fiscal year. The reasons for the overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental activities.** During the current fiscal year, net position for governmental activities, increased \$24,679,532 from the prior fiscal year for an ending balance of \$264,520,936. This increase is primarily due to a decrease in the liability and related deferred inflows and outflows of the City's OPEB systems by a net total of \$23,486,683. Additionally, net position increased as a result of a decrease in the City's long-term debt obligations of \$8,061,156. These increases were offset by a decrease in the City's GERS net pension asset and an increase of the Police and Fire net pension liability and related deferred inflows and outflows of both plans by a net total of \$6,497,302.

**Business-type activities.** The City's business-type activities consists of the parking fund. The City owns the Phoenix Center parking structure, which was the subject of litigation that was settled in November of 2018. As a result of the settlement, the City is obligated to repair the structure and provide routine maintenance. During the current fiscal year, net position for business-type activities decreased \$310,973 from the prior fiscal year for an ending balance of \$13,437,274. This is the result of depreciation of capital assets of \$564,861 and litigation-related building maintenance costs that were not expected or budgeted for during the year.

# CITY OF PONTIAC, MICHIGAN

## Management's Discussion and Analysis

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

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 4,313,235	\$ 4,339,774	\$ 520	\$ 15,128	\$ 4,313,755	\$ 4,354,902
Operating grants	12,928,077	12,268,135	-	164,925	12,928,077	12,433,060
Capital grants	1,130,030	1,972,784	-	-	1,130,030	1,972,784
General revenues:						
Property taxes	12,429,041	11,904,598	-	-	12,429,041	11,904,598
Income taxes	14,537,062	13,152,028	-	-	14,537,062	13,152,028
Unrestricted state shared revenues	10,013,232	9,791,923	-	-	10,013,232	9,791,923
Unrestricted investment earnings	871,598	327,058	47,975	18,568	919,573	345,626
Cable franchise fees	547,547	550,765	-	-	547,547	550,765
Other general revenues	266,744	-	-	-	266,744	-
State revenue	471,724	-	-	-	471,724	-
Total revenues	57,508,290	54,307,065	48,495	198,621	57,556,785	54,505,686
Expenses:						
General government	\$ 5,626,651	\$ 9,326,686	\$ -	\$ -	\$ 5,626,651	\$ 9,326,686
Public safety	16,650,436	28,348,986	-	-	16,650,436	28,348,986
Public works	10,098,286	12,087,764	-	-	10,098,286	12,087,764
Community development	(1,530,006)	1,315,867	-	-	(1,530,006)	1,315,867
Community and human services	348,277	411,864	-	-	348,277	411,864
Recreation and culture	1,635,114	595,224	-	-	1,635,114	595,224
Parking	-	-	359,468	659,442	359,468	659,442
Total expenses	32,828,758	52,086,391	359,468	659,442	33,188,226	52,745,833
Change in net position	24,679,532	2,220,674	(310,973)	(460,821)	24,368,559	1,759,853
Net position beginning of year	239,841,404	237,620,730	13,748,247	14,209,068	253,589,651	251,829,798
End of year	\$ 264,520,936	\$ 239,841,404	\$ 13,437,274	\$ 13,748,247	\$ 277,958,210	\$ 253,589,651

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

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

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

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

At June 30, 2019, the City's governmental funds reported combined fund balances of \$39,006,115 an increase of \$909,800 in comparison with the prior year. Approximately 32% of this amount, \$12,554,802, 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 (\$83,486), 2) restricted for particular purposes (\$20,367,827), 3) committed for particular purposes (\$3,200,000), or 4) assigned for particular purposes (\$2,800,000).

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 \$12,554,802, while total fund balance increased to \$18,585,011. 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 36% of the total general fund expenditures, while total fund balance represents approximately 53% of that same amount.

The fund balance of the City's general fund for fiscal year 2019 was \$18,585,011, an increase of \$1,162,861 from the prior fiscal year. The increase was mainly due to the City collecting \$1,141,974 of additional income tax receipts, net of refunds, as compared to the prior year. Other revenue sources that increased compared to prior year were the personal property tax exemption reimbursement (\$132,760), and state shared revenue (\$221,309).

The major street fund, a major fund, had a \$170,435 decrease in fund balance during the current fiscal year which decreased the overall fund balance to \$2,492,968. This is a result of one time additional expenditures on capital road projects as compared to prior year. Major road projects for fiscal year 2019 were Joslyn Road, Hill Street, University Drive, and South Boulevard.

The local street fund, a major fund, had a \$945,260 decrease in fund balance during the current fiscal year which decreased the overall fund balance to \$4,988,092. The decrease in fund balance was expected and budgeted for during the time the budget was originally adopted. The original budget projected fund balance to decrease approximately \$1.3 million. The decrease is mainly due to one time additional expenditures on capital road projects as compared to prior year. Major road projects for fiscal year 2019 were Kettering, Irwin, and Ferry Streets.

The sanitation fund, a major fund, had a \$38,237 decrease in fund balance during the current fiscal year which decreased the overall fund balance to \$6,177,611. The decrease in fund balance was expected and included in the originally adopted budget. The original budget projected fund balance to decrease by approximately \$939,000. Total expenditures came in less than what was projected for the year.

The district court fund, a major fund, had a \$606 decrease in fund balance during the current fiscal year which decreased the fund balance to \$1,487. This decrease was due to utilization of fund balance to cover the cost of operating expenditures during the 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 \$13,437,274. The total decrease in net position for the proprietary fund was \$310,973 (parking fund is the only propriety fund of the City). This was primarily caused by depreciation of capital assets of \$564,861.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

#### General Fund Budgetary Highlights

Original budget compared to final budget. Over the course of the year, the City amended the budget five times 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. The other amendments were for the following events that happened during the year: 5% salary increases, setting up the MIDC fund, Phoenix Center Settlement, and Williams International Education funding.

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 \$1,650,928 which is mostly due to property tax collections exceeding the final budget estimates by \$624,119 and income tax collections, net of refunds, exceeding final budget estimates by \$1,006,678. Property tax chargebacks were less than anticipated by \$566,815 causing actual revenue to be more than budget. Finally, the City exceeded the final budget estimates for State Shared Revenue by \$461,154.
- Total expenditures came in \$2,648,554 less than budgeted. Significant savings resulted from less than anticipated expenditures for the following:
  - The general government function other services and charges expenditures were less than anticipated. Expenditures were about \$397k less than budget mainly due to unspent District Project money.
  - Public safety function came in about \$154k less than budget mainly due to sheriff overtime expenditures being less than anticipated. Building maintenance services for the police and fire departments also came in under
  - Public works function was about \$587k less than budget. \$298k of that amount is due to personnel expenditures being less than anticipated. The other part of that amount is made up of the other services and charges line items, asset management, and utilities street lighting.
  - Health and welfare function had \$150k available funds for tele-van services at the end of the fiscal year.
  - Community and economic development function was about \$832k under budget at the end of the fiscal year. This was due to a combination of factors. Personnel services came in \$352k less than budgeted. Civil engineering expenditures were less than anticipated. Also, TIFA contributions from the general fund were less than budgeted due to higher than anticipated property tax capture.
  - Recreation and culture function was about \$210k less than budget, mainly due to the other services and charges line item, grant matching.
  - Other functions - The retiree fringe benefits contribution was about \$319k less than anticipated.

#### 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, 2019, amounts to \$100,612,192 (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	
	2019	2018	2019	2018	2019	2018
Land	\$ 25,105,058	\$ 25,105,058	\$ 3,042,537	\$ 3,042,537	\$ 28,147,595	\$ 28,147,595
Construction in progress	3,232,385	1,589,687	-	-	3,232,385	1,589,687
Streets and bridges	61,084,399	61,533,603	-	-	61,084,399	61,533,603
Buildings and improvements	740,269	684,336	6,250,218	6,815,079	6,990,487	7,499,415
Machinery and equipment	645,391	252,195	-	-	645,391	252,195
Vehicles	326,624	71,182	-	-	326,624	71,182
Land improvements	185,311	202,871	-	-	185,311	202,871
Total	\$ 91,319,437	\$ 89,438,932	\$ 9,292,755	\$ 9,857,616	\$ 100,612,192	\$ 99,296,548

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

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had total indebtedness of \$8,807,480.

The City's total indebtedness decreased by \$8,061,156 during the current fiscal year primarily due to the Phoenix Center Settlement which reduced debt by \$4,550,000. Reduction of the TIFA financial guarantee also decreased indebtedness by approximately \$3.5 million.

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 \$69.6 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.
- 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 number of dilapidated housing units in the City through a strong demolition program of dangerous structures.

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). If approved by the IRS, the settlement will resolve the City's obligation to provide health insurance to those retirees through a creation of a new VEBA utilizing a portion of assets from the General Employees Retirement system and all assets of the Police and Fire VEBA system. The City's initial contribution to the new VEBA created by this settlement will be \$4,250,000 less any awards against the City in the Board of Trustees Police and Fire VEBA vs City of Pontiac litigation.

On July 31, 2019, a judgement was entered regarding the FY 2012 annual contribution of \$3,473,923 in the Board of Trustees Police and Fire VEBA vs City of Pontiac litigation. The City was directed to pay the FY 2012 contribution of \$3,473,923 plus interest of \$600,052 for a total award of \$4,073,975 to the VEBA. The City and the VEBA entered into a settlement on October 31, 2019 which would offset the receivables owed from the VEBA to the City as of October 31, 2019 against the award of \$4,073,975 and prospectively monies the VEBA will be indebted to the City relating to insurance premium payments until the \$4,073,975 was paid in full. In addition, the award in the VEBA case of \$4,073,975 would offset the initial contribution of \$4,250,000 mandated in the settlement of the Retired Employees Association vs City of Pontiac case, with the difference of \$176,025 owed at the time of the creation of the new VEBA if approved by the IRS.

## CITY OF PONTIAC, MICHIGAN

### Management's Discussion and Analysis

#### 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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 40,967,465	\$ 2,390,695	\$ 43,358,160	\$ 532,157
Receivables, net	10,097,840	3,032	10,100,872	29,571
Other assets	4,878,857	-	4,878,857	-
Restricted assets	2,122,397	-	2,122,397	-
Capital assets not being depreciated	28,337,443	3,042,537	31,379,980	-
Capital assets being depreciated, net	62,981,994	6,250,218	69,232,212	-
Net pension asset	190,135,682	1,849,503	191,985,185	-
<b>Total assets</b>	<b>339,521,678</b>	<b>13,535,985</b>	<b>353,057,663</b>	<b>561,728</b>
<b>Deferred outflows of resources</b>				
Deferred charge on refunding	-	-	-	511,707
Deferred pension amounts	47,146,996	391,169	47,538,165	-
Deferred other postemployment benefit amounts	3,743,763	-	3,743,763	-
<b>Total deferred outflows of resources</b>	<b>50,890,759</b>	<b>391,169</b>	<b>51,281,928</b>	<b>511,707</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	11,007,404	104,750	11,112,154	172,671
Unearned revenue	466,427	-	466,427	-
Long-term liabilities:				
Due within one year	1,496,070	-	1,496,070	1,410,000
Due in more than one year	7,311,410	-	7,311,410	18,380,000
Financial guarantee	-	-	-	4,653,307
Net pension liability (due in more than one year)	37,303,303	-	37,303,303	-
Net other postemployment benefit liability (due in more than one year)	67,140,933	364,211	67,505,144	-
<b>Total liabilities</b>	<b>124,725,547</b>	<b>468,961</b>	<b>125,194,508</b>	<b>24,615,978</b>
<b>Deferred inflows of resources</b>				
Deferred pension amounts	1,165,954	20,919	1,186,873	-
<b>Net position</b>				
Investment in capital assets	91,319,437	9,292,755	100,612,192	-
Restricted for:				
Roads	8,201,484	-	8,201,484	-
Drug enforcement	227,440	-	227,440	-
Capital projects	3,016,941	-	3,016,941	-
Sanitation	4,012,386	-	4,012,386	-
Senior activities	1,032,821	-	1,032,821	-
Community development	30,335	-	30,335	-
Home buyers assistance	3,638	-	3,638	-
Cable television	1,200,486	-	1,200,486	-
Telecommunications	57,750	-	57,750	-
Building inspection	924,178	-	924,178	-
Pension benefits	220,766,223	2,219,753	222,985,976	-
Unrestricted (deficit)	(66,272,183)	1,924,766	(64,347,417)	(23,542,543)
<b>Total net position (deficit)</b>	<b>\$ 264,520,936</b>	<b>\$ 13,437,274</b>	<b>\$ 277,958,210</b>	<b>\$ (23,542,543)</b>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 5,626,651	\$ 1,374,504	\$ 2,398,535	\$ -	\$ (1,853,612)
Public safety	16,650,436	308,152	2,684,070	-	(13,658,214)
Public works	10,098,286	2,486,388	7,518,501	1,180,246	1,086,849
Community development	(1,530,006)	121,806	310,617	(52,426)	1,910,003
Community and human services	348,277	-	-	-	(348,277)
Recreation and culture	1,635,114	22,385	16,354	2,210	(1,594,165)
Total governmental activities	32,828,758	4,313,235	12,928,077	1,130,030	(14,457,416)
Business-type activities -					
Parking fund	359,468	520	-	-	(358,948)
Total primary government	\$ 33,188,226	\$ 4,313,755	\$ 12,928,077	\$ 1,130,030	\$ (14,816,364)
Component units					
Tax Increment Financing Authority	\$ 1,649,162	\$ 75,000	\$ 632,824	\$ -	\$ (941,338)

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
Changes in net position				
Net expense	\$ (14,457,416)	\$ (358,948)	\$ (14,816,364)	\$ (941,338)
General revenues				
Property taxes	12,429,041	-	12,429,041	1,491,334
Income taxes	14,537,062	-	14,537,062	-
State-shared revenue (unrestricted)	10,013,232	-	10,013,232	-
Unrestricted investment earnings	871,598	47,975	919,573	-
Cable franchise fees	547,547	-	547,547	-
Other general revenues	266,744	-	266,744	-
State revenue	471,724	-	471,724	197,210
Total general revenues	39,136,948	47,975	39,184,923	1,688,544
Change in net position	24,679,532	(310,973)	24,368,559	747,206
Net position, beginning of year	239,841,404	13,748,247	253,589,651	(24,289,749)
Net position, end of year	\$ 264,520,936	\$ 13,437,274	\$ 277,958,210	\$ (23,542,543)

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, 2019

	General	Major Streets	Local Streets	Sanitation
<b>Assets</b>				
Cash and investments	\$ 17,280,341	\$ 2,521,641	\$ 5,731,393	\$ 4,334,375
Accounts receivable, net	597,316	145,962	-	110,500
Taxes receivable, net	4,686,960	-	-	8,994
Interest receivable	20,322	2,097	6,927	2,959
Due from other governments	1,705,412	896,476	272,953	-
Due from other funds	724,424	-	-	-
Prepays	30,209	-	-	1
Restricted assets	-	-	-	2,122,397
<b>Total assets</b>	<b>\$ 25,044,984</b>	<b>\$ 3,566,176</b>	<b>\$ 6,011,273</b>	<b>\$ 6,579,226</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,999,870	\$ 483,539	\$ 876,227	\$ 307,519
Accrued wages	108,580	6,411	9,788	1,441
Unearned revenue	-	-	-	-
Due to other governments	862,262	-	-	81,492
Due to other funds	-	-	-	-
Deposits payable	495,150	-	-	-
<b>Total liabilities</b>	<b>3,465,862</b>	<b>489,950</b>	<b>886,015</b>	<b>390,452</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue - taxes and due from other governments	2,994,111	583,258	137,166	11,163
<b>Fund balances</b>				
Nonspendable	30,209	-	-	1
Restricted	-	2,492,968	4,988,092	6,177,610
Committed	3,200,000	-	-	-
Assigned	2,800,000	-	-	-
Unassigned	12,554,802	-	-	-
<b>Total fund balances</b>	<b>18,585,011</b>	<b>2,492,968</b>	<b>4,988,092</b>	<b>6,177,611</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 25,044,984</b>	<b>\$ 3,566,176</b>	<b>\$ 6,011,273</b>	<b>\$ 6,579,226</b>

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



District Court	Nonmajor Governmental Funds	Totals
\$ 896,434	\$ 7,463,521	\$ 38,227,705
-	36,727	890,505
-	6,628	4,702,582
-	5,759	38,064
-	-	2,874,841
-	-	724,424
1,487	51,789	83,486
-	-	2,122,397
<u>\$ 897,921</u>	<u>\$ 7,564,424</u>	<u>\$ 49,664,004</u>
\$ 36,283	\$ 248,375	\$ 3,951,813
62,740	38,049	227,009
-	466,427	466,427
65,153	43,199	1,052,106
724,424	-	724,424
7,834	800	503,784
<u>896,434</u>	<u>796,850</u>	<u>6,925,563</u>
-	6,628	3,732,326
1,487	51,789	83,486
-	6,709,157	20,367,827
-	-	3,200,000
-	-	2,800,000
-	-	12,554,802
<u>1,487</u>	<u>6,760,946</u>	<u>39,006,115</u>
<u>\$ 897,921</u>	<u>\$ 7,564,424</u>	<u>\$ 49,664,004</u>

This page intentionally left blank.

## CITY OF PONTIAC, MICHIGAN

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2019

Fund balances - total governmental funds	\$ 39,006,115
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	28,337,443
Capital assets being depreciated, net	62,981,994
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows in the governmental funds and, therefore, are not included in fund balance.	3,732,326
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	(37,303,303)
Net pension asset	190,135,682
Net other postemployment benefit liability	(67,140,933)
Deferred outflows related to the net pension asset and liability	47,146,996
Deferred inflows related to the net pension asset and liability	(1,165,954)
Deferred outflows related to the net other postemployment benefit liability	3,743,763
Internal service funds are used by management to charge the costs of certain equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	3,453,503
Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.	
Financial guarantee	(3,430,308)
Lawsuit settlement	(2,800,000)
Landfill closure and postclosure costs	(2,176,388)
Net position of governmental activities	<u>\$ 264,520,936</u>

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, 2019

	General	Major Streets	Local Streets	Sanitation
<b>Revenues</b>				
Property taxes and special assessments	\$ 8,403,182	\$ -	\$ -	\$ 1,865,787
Income taxes	14,456,678	-	-	-
Federal revenue	85,972	-	-	-
State revenue	10,557,441	5,880,723	1,550,925	103,490
Charges for services	954,247	15,851	-	1,671,488
Fines and forfeitures	8,000	-	-	-
Licenses and permits	192,758	-	-	-
Interest and rental revenue	997,953	30,733	102,735	102,794
Other revenue	1,673,351	71,003	-	-
<b>Total revenues</b>	<b>37,329,582</b>	<b>5,998,310</b>	<b>1,653,660</b>	<b>3,743,559</b>
<b>Expenditures</b>				
Current:				
General government	8,738,249	-	-	-
District court	-	-	-	-
Public safety	19,856,095	-	-	-
Public works	2,098,159	6,187,229	2,613,045	3,782,087
Community and economic development	1,560,859	-	-	-
Community and human services	-	-	-	-
Recreation and culture	510,475	-	-	-
Retiree fringe benefits	2,133,428	-	-	-
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>34,897,265</b>	<b>6,187,229</b>	<b>2,613,045</b>	<b>3,782,087</b>
<b>Revenues over (under) expenditures</b>	<b>2,432,317</b>	<b>(188,919)</b>	<b>(959,385)</b>	<b>(38,528)</b>
<b>Other financing sources (uses)</b>				
Transfers in	248,585	18,484	14,125	291
Transfers out	(1,518,041)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(1,269,456)</b>	<b>18,484</b>	<b>14,125</b>	<b>291</b>
<b>Net changes in fund balances</b>	<b>1,162,861</b>	<b>(170,435)</b>	<b>(945,260)</b>	<b>(38,237)</b>
<b>Fund balances, beginning of year</b>	<b>17,422,150</b>	<b>2,663,403</b>	<b>5,933,352</b>	<b>6,215,848</b>
<b>Fund balances, end of year</b>	<b>\$ 18,585,011</b>	<b>\$ 2,492,968</b>	<b>\$ 4,988,092</b>	<b>\$ 6,177,611</b>

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



District Court	Nonmajor Governmental Funds	Totals
\$ -	\$ 2,186,274	\$ 12,455,243
-	-	14,456,678
-	-	85,972
182,896	316,267	18,591,742
773,290	111,085	3,525,961
1,079,420	41,197	1,128,617
-	2,370,973	2,563,731
1,869	122,868	1,358,952
-	551,793	2,296,147
<u>2,037,475</u>	<u>5,700,457</u>	<u>56,463,043</u>
-	282,892	9,021,141
2,942,908	-	2,942,908
-	2,051,401	21,907,496
-	-	14,680,520
-	-	1,560,859
-	348,277	348,277
-	987,338	1,497,813
-	-	2,133,428
-	959,377	959,377
<u>2,942,908</u>	<u>4,629,285</u>	<u>55,051,819</u>
<u>(905,433)</u>	<u>1,071,172</u>	<u>1,411,224</u>
946,047	55,305	1,282,837
<u>(41,220)</u>	<u>(225,000)</u>	<u>(1,784,261)</u>
<u>904,827</u>	<u>(169,695)</u>	<u>(501,424)</u>
(606)	901,477	909,800
<u>2,093</u>	<u>5,859,469</u>	<u>38,096,315</u>
<u>\$ 1,487</u>	<u>\$ 6,760,946</u>	<u>\$ 39,006,115</u>

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, 2019

Net changes in fund balances - total governmental funds	\$ 909,800
Amounts reported for <i>governmental activities</i> 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	5,716,195
Depreciation expense	(5,143,967)
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.	
	1,024,759
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	23,486,683
Change in net pension asset/liability	(6,497,302)
Change in financial guarantee	3,489,338
Change in landfill closure and postclosure liability	(9,630)
Change in accrual for lawsuit settlement	4,550,000
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.	
	<u>(2,846,344)</u>
Change in net position of governmental activities	<u>\$ 24,679,532</u>

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Net Position

Proprietary Funds

June 30, 2019

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 2,390,695	\$ 2,739,760
Accounts receivable	-	1,492,567
Due from other governments	-	99,281
Interest receivable	3,032	-
Prepays	-	4,795,371
Total current assets	<u>2,393,727</u>	<u>9,126,979</u>
Noncurrent assets:		
Capital assets not being depreciated	3,042,537	-
Capital assets being depreciated, net	6,250,218	-
Net pension asset	1,849,503	-
Total noncurrent assets	<u>11,142,258</u>	<u>-</u>
<b>Total assets</b>	<u>13,535,985</u>	<u>9,126,979</u>
Deferred outflows of resources		
Deferred pension amounts	<u>391,169</u>	<u>-</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	104,750	4,143,699
Accrued liabilities	-	1,127,062
Accrued wages	-	1,931
Current portion of compensated absences	-	205,198
Total current liabilities	<u>104,750</u>	<u>5,477,890</u>
Noncurrent liabilities:		
Net other postemployment benefit liability	364,211	-
Compensated absences	-	195,586
Total noncurrent liabilities	<u>364,211</u>	<u>195,586</u>
<b>Total liabilities</b>	<u>468,961</u>	<u>5,673,476</u>
Deferred inflows of resources		
Deferred pension amounts	<u>20,919</u>	<u>-</u>
<b>Net position</b>		
Investment in capital assets	9,292,755	-
Restricted for pension benefits	2,219,753	-
Unrestricted	1,924,766	3,453,503
<b>Total net position</b>	<u>\$ 13,437,274</u>	<u>\$ 3,453,503</u>

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, 2019

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ -	\$ 5,018,426
Property taxes	520	-
Other revenue	-	694,869
	<hr/>	<hr/>
Total revenues	520	5,713,295
	<hr/>	<hr/>
Operating expenses		
Insurance	-	8,837,773
Operating and maintenance costs	419,900	-
Reduction in other post employment benefit obligation liability	(625,293)	
Workers' compensation expense	-	249,885
Depreciation	564,861	-
Miscellaneous expense	-	4,605
	<hr/>	<hr/>
Total operating expenses	359,468	9,092,263
	<hr/>	<hr/>
Operating loss	(358,948)	(3,378,968)
Nonoperating revenues		
Interest income	47,975	31,200
	<hr/>	<hr/>
Loss before transfers	(310,973)	(3,347,768)
Other financing sources		
Transfers in	-	501,424
	<hr/>	<hr/>
Change in net position	(310,973)	(2,846,344)
Net position, beginning of year	13,748,247	6,299,847
	<hr/>	<hr/>
Net position, end of year	<u>\$ 13,437,274</u>	<u>\$ 3,453,503</u>

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

This page intentionally left blank.

# CITY OF PONTIAC, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Parking Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 520	\$ -
Cash payments to suppliers	(288,457)	(6,200,906)
Cash payments to employees	-	(31,029)
Cash received from interfund services	-	4,608,775
Net cash used by operating activities	(287,937)	(1,623,160)
Cash flows from noncapital financing activities		
Transfers in	-	501,424
Cash flows from investing activities		
Interest income received	48,560	31,200
Net change in cash and investments	(239,377)	(1,090,536)
Cash and investments, beginning of year	2,630,072	3,830,296
Cash and investments, end of year	\$ 2,390,695	\$ 2,739,760
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (358,948)	\$ (3,378,968)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	564,861	-
Change in:		
Accounts receivable	-	(1,099,915)
Due from other governments	-	(27,116)
Interest receivable	-	33
Prepays	-	(749,075)
Net pension asset	583,443	-
Deferred outflows of resources	(391,169)	-
Accounts payable	100,107	4,084,237
Accrued liabilities	-	(421,327)
Accrued wages	-	419
Due to other governments	(519)	-
Net other postemployment benefit liability	(625,293)	-
Compensated absences	-	(31,448)
Deferred inflows of resources	(160,419)	-
Net cash used by operating activities	\$ (287,937)	\$ (1,623,160)

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Fiduciary Net Position

### Fiduciary Funds

	December 31, 2018	June 30, 2019
	Pension and Other Postemployment Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 1,016,070	\$ 1,626,717
Investments at fair value:		
U.S. government obligations and agencies	1,433,597	-
Government agency notes and debentures	62,163,411	-
Mortgage-backed securities	1,354,648	-
Collateralized mortgage obligations	250,142	-
U.S government securities	21,122,769	-
U.S government mortgage-backed securities	34,358,612	-
Commercial mortgage pools	1,727,405	-
Asset-backed securities	1,921,301	-
Corporate and other bonds	30,162,503	-
Foreign bonds and notes	119,100	-
Limited partnerships	83,289,873	-
Domestic stock	116,875,110	-
Short-term investments	21,715,177	-
Equities	21,760,227	-
Domestic equities	226,259,625	-
Private equities	11,477,137	-
Foreign equities	39,966,376	-
Real estate	18,428,545	-
Real estate investment trusts	752,159	-
Accrued interest and dividends receivable	1,551,313	-
Due from broker	5,073	-
Other receivables	4,082,643	-
Due from other governments	-	7,077
Due from Police and Fire Retirement System VEBA	86,983	-
<b>Total assets</b>	<b>701,879,799</b>	<b>\$ 1,633,794</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Statement of Fiduciary Net Position

### Fiduciary Funds

	December 31, 2018	June 30, 2019
	Pension and Other Postemployment Trust Funds	Agency Funds
<b>Liabilities</b>		
Due to City of Pontiac	\$ 72,493	\$ -
Due to Police and Fire Retirement System	86,983	-
Accounts payable and other	1,061,948	-
Due to other governments	-	70,587
Deposits payable	-	1,563,207
<b>Total liabilities</b>	<u>1,221,424</u>	<u>\$ 1,633,794</u>
<b>Net position restriced for</b>		
Pension benefits	660,812,181	
Other postemployment benefits	<u>39,846,194</u>	
<b>Total net position</b>	<u>\$ 700,658,375</u>	

concluded.

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

# CITY OF PONTIAC, MICHIGAN

## Statement of Changes in Fiduciary Net Position

Pension and Other Postemployment Benefit Trust Funds

For the Year Ended December 31, 2018

	Pension and Other Postemployment Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividend income	\$ 14,786,174
Net decrease in fair value	(44,281,701)
Less investment expenses	(3,797,987)
	<hr/>
Net investment loss	(33,293,514)
Contributions -	
Employer	6,486,532
Miscellaneous and litigation revenue	86,213
	<hr/>
Total additions	(26,720,769)
	<hr/>
<b>Deductions</b>	
Retirees' pension benefits	48,830,726
Retiree health benefit payments	2,304,955
Administrative expenses	1,095,039
	<hr/>
Total deductions	52,230,720
	<hr/>
Change in net position	(78,951,489)
Net position, beginning of year	779,609,864
	<hr/>
Net position, end of year	<u>\$ 700,658,375</u>

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, 2019

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
<b>Assets</b>			
Cash and investments	\$ 264,926	\$ 267,231	\$ 532,157
Receivables, net	29,571	-	29,571
<b>Total assets</b>	<b>294,497</b>	<b>267,231</b>	<b>561,728</b>
<b>Deferred outflows of resources</b>			
Deferred charge on refunding	511,707	-	511,707
<b>Liabilities</b>			
Accounts payable and accrued liabilities	172,658	13	172,671
Long-term liabilities:			
Due within one year	1,410,000	-	1,410,000
Due in more than one year	18,380,000	-	18,380,000
Financial guarantee	4,653,307	-	4,653,307
<b>Total liabilities</b>	<b>24,615,965</b>	<b>13</b>	<b>24,615,978</b>
<b>Net position</b>			
Unrestricted (deficit)	\$ (23,809,761)	\$ 267,218	\$ (23,542,543)

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

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Activities

Discretely Presented Component Units

For the Year Ended June 30, 2019

	Tax Increment Finance Authority	Brownfield Redevelopment Authority	Totals
Expenses			
Financial guarantee	\$ 632,824	\$ -	\$ 632,824
Interest on long-term debt	1,016,338	-	1,016,338
Total expenses	1,649,162	-	1,649,162
Program revenues			
Operating grants and contributions	632,824	-	632,824
Net program expense	(1,016,338)	-	(1,016,338)
General revenues			
Property taxes	1,457,438	33,896	1,491,334
Charges for services	75,000	-	75,000
State revenue	197,210	-	197,210
Total general revenues	1,729,648	33,896	1,763,544
Change in net position	713,310	33,896	747,206
Net position (deficit), beginning of year	(24,523,071)	233,322	(24,289,749)
Net position (deficit), end of year	\$ (23,809,761)	\$ 267,218	\$ (23,542,543)

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

## NOTES TO FINANCIAL STATEMENTS

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Reporting Entity

The City 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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, 2019, except for the pension and other postemployment benefit trust funds, which are shown for the year ended December 31, 2018.

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 2018 tax is levied and collectible on July 1, 2018 and is recognized as revenue in the year ended June 30, 2019, when the proceeds of the levy are budgeted and available for the financing of operations.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

The 2018 taxable valuation of the City of Pontiac totaled approximately \$697 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 11.2691 mills for operating purposes, 2.8171 mills for refuse collection and disposal, 1.4085 mills for capital improvement, 1.4994 for youth recreation, and .4998 mill for senior activities. This resulted in \$7.21 million for operating, \$1.80 million for refuse collection and disposal, \$0.90 million for capital improvement, \$0.95 million for youth recreation, and \$0.32 million for senior activities. These amounts are recognized in the respective general fund, special revenue funds, and capital projects fund financial statements as property tax revenue.

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

##### *Deposits and Investments*

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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 charge on refunding. A deferred refunding charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

#### *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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### *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. 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.

### *Reclassification*

As of July 1, 2018, the City reclassified approximately \$62K of fund balance from the cemetery special revenue fund into the general fund.

# CITY OF PONTIAC, MICHIGAN

## 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, 2019:

	Primary Government	Component Units	Total
Statement of net position			
Cash and investments	\$ 43,358,160	\$ 532,157	\$ 43,890,317
Restricted assets	2,122,397	-	2,122,397
Statement of fiduciary net position			
Cash and cash equivalents	2,642,787	-	2,642,787
Investments	695,137,717	-	695,137,717
 Total	 <u>\$ 743,261,061</u>	 <u>\$ 532,157</u>	 <u>\$ 743,793,218</u>
Bank deposits (demand accounts and certificates of deposit)			\$ 34,344,639
Investments in securities, mutual funds and similar vehicles:			
U.S. treasury securities			999,249
Oakland County Local Government Investment Pool (LGIP)			11,927,777
Money markets			364,294
General Employees' Retirement System			453,826,138
Police and Fire Retirement System			206,419,137
Police and Fire Retirement System VEBA			35,908,512
Cash on hand			<u>3,472</u>
			<u>\$ 743,793,218</u>

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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 9 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, 2018 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 \$35,149,493 of bank deposits (certificates of deposit, checking, and savings accounts) of which \$1,494,742 was covered by federal deposit insurance and \$2,122,397 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Police and Fire Retirement System* - The PFRS does not have a deposit policy for custodial credit risk. At year end the PFRS did not have any 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 \$842,052 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, 2019, 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	\$ 999,249	2.00
Oakland County LGIP	11,927,777	0.71

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

Investment	Fair Value	Weighted Average Maturity (years)
U.S. government agencies	\$ 10,124,029	1.03
U.S. government mortgage-backed securities	2,578,057	12.19
U.S. government treasury bonds	10,998,740	8.26
Corporate bonds	14,000,403	4.00

*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	\$ 1,222,866	2.62
Commercial mortgage pools	1,689,948	27.47
Corporate bonds	14,971,522	10.03
Government agencies	2,795,389	1.24
Government bonds	45,458,595	6.92
Government mortgage-backed securities	31,780,555	21.31
Government issued commercial mortgage-backed securities	19,858	0.23
Municipal/provincial bonds	13,889,569	2.48
Nongovernment-backed CMOs	37,457	16.41

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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	\$ 698,435	4.87
Bonds	1,165,990	5.93
Collateralized mortgage obligations	206,000	27.75
Private placement	24,588	4.74
Foreign bonds	119,100	4.22
U.S. government:		
Collateralized mortgage obligations	44,142	37.68
Mortgage-backed	1,354,648	25.89
TIPS	1,433,597	4.39

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

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

Investment	Fair Value	Rating	Rating Organization
Oakland County LGIP	\$ 11,927,777	Not rated	n/a
Money markets	364,294	Not rated	n/a

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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	\$ 2,925,874	AA	S&P
Corporate bonds	10,175,488	A	S&P
Corporate bonds	899,041	BBB	S&P
Government agencies	10,124,029	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	\$ 379,578	Aaa	Moody's
Asset-backed securities	843,288	Unrated	n/a
Commercial mortgage-backed securities	1,347,950	Aaa	Moody's
Commercial mortgage-backed securities	341,998	Aa	Moody's
Corporate bonds	172,576	Aaa	Moody's
Corporate bonds	604,612	Aa	Moody's
Corporate bonds	9,679,230	A	Moody's
Corporate bonds	4,515,104	Baa	Moody's
Governmental agencies	1,982,902	Aaa	Moody's
Governmental agencies	812,487	Aa	Moody's
Government bonds	43,419,605	Aaa	Moody's
Short-term investment funds	12,403,127	Unrated	n/a
Municipal/Provincial bonds	1,340,942	Aaa	Moody's
Municipal/Provincial bonds	6,587,306	Aa	Moody's
Municipal/Provincial bonds	5,961,321	Unrated	n/a
Nongovernment-backed C.M.O.s	37,457	Unrated	n/a

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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	\$ 162,553	Aaa	Moody
Asset-backed securities	21,137	Aa1	Moody
Asset-backed securities	20,010	Aa2	Moody
Asset-backed securities	494,735	Not rated	n/a
Bonds	14,814	Aa1	Moody
Bonds	25,229	A1	Moody
Bonds	91,273	A2	Moody
Bonds	283,906	A3	Moody
Bonds	644,946	Baa1 and below	Moody
Bonds	105,822	Not rated	n/a
Collateralized mortgage obligations	85,379	Aaa	Moody
Collateralized mortgage obligations	33,530	Aa1	Moody
Collateralized mortgage obligations	19,848	Aa2	Moody
Collateralized mortgage obligations	39,745	Aa3	Moody
Collateralized mortgage obligations	27,498	A3	Moody
Private placement	24,588	Baa1 and below	Moody
Foreign bonds	30,022	Aa2	Moody
Foreign bonds	29,697	Aa3	Moody
Foreign bonds	59,381	Baa1 and below	Moody

#### *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 Trust's investments.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

#### *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, 2018, 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 \$12,973,693. At year end, the System had a total foreign currency translation loss of \$511,088 related to equity investments.

Security	Fair Value
Australian Dollar	\$ 975,038
British Pound	1,662,878
Canadian Dollar	271,134
Denmark Krone	644,970
European Euro	3,714,599
Hong Kong Dollar	1,613,327
Japanese Yen	866,804
Mexican Peso	569,773
Swedish Krona	959,219
Swiss Franc	1,695,951

#### *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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

The City had the following recurring fair value measurements as of June 30, 2019:

	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, 2019
Debt securities -				
U.S. treasury securities	\$ -	\$ 999,249	\$ -	\$ 999,249
Investments measured at NAV				
Oakland county investments				<u>11,927,777</u>
Total investments				<u>\$ 12,927,026</u>

*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, 2019, 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	<u>\$ 11,927,777</u>	<u>\$ -</u>	No restrictions	None

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Police and Fire Retirement System* - The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust had the following recurring fair value measurements as of December 31, 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 December 31, 2018
Debt securities:				
U.S. government securities	\$ -	\$ 21,122,769	\$ -	\$ 21,122,769
U.S. government mortgage- backed securities	-	2,578,057	-	2,578,057
Corporate bonds	-	14,000,403	-	14,000,403
Equity securities - common stock	50,396,411	-	-	50,396,411
Total investments at fair value	\$ 50,396,411	\$ 37,701,229	\$ -	88,097,640
Investments measured at NAV				
Equities funds				66,478,699
Bond fund				8,204,905
Limited partnerships				14,366,222
Real estate funds				21,178,673
Total investments at NAV				110,228,499
Total investments				\$ 198,326,139

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, 2018 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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	\$ 66,478,699	\$ -	Monthly	Up to 30 days
Bond fund	8,204,905	-	Monthly	15 days
Limited partnerships	14,366,222	-	Quarterly	10 days
Real estate funds	21,178,673	-	Quarterly	10 days
	<u>\$ 110,228,499</u>	<u>\$ -</u>		

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

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 net asset value per share of the investments.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*General Employees' Retirement System* - The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System had the following recurring fair value measurements as of December 31, 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 December 31, 2018
Debt securities:				
U.S. treasury securities	\$ -	\$ 45,458,595	\$ -	\$ 45,458,595
U.S. agencies	-	2,795,389	-	2,795,389
Municipal/provincial	-	13,889,569	-	13,889,569
Commercial mortgage backed	-	1,747,263	-	1,747,263
Residential mortgage backed	-	31,780,555	-	31,780,555
Corporate bonds	-	14,971,522	-	14,971,522
Asset backed	-	1,222,866	-	1,222,866
Equity securities:				
Common stock	232,064,425	-	-	232,064,425
Exchange-traded funds	875,624	-	-	875,624
Private equity funds	-	-	11,477,137	11,477,137
Short-term investment fund	12,403,127	-	-	12,403,127
Total investments at fair value	<u>\$ 245,343,176</u>	<u>\$ 111,865,759</u>	<u>\$ 11,477,137</u>	<u>368,686,072</u>
Investments measured at NAV				
International equities fund				37,289,685
Real estate fund				34,226,741
Domestic equities fund				<u>13,203,319</u>
Total investments at NAV				<u>84,719,745</u>
Total investments				<u>\$ 453,405,817</u>

Debt securities fair value at December 31, 2018 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, 2018 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 million in unfunded commitments to these funds.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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	\$ 37,289,685	\$ -	Daily/monthly	10 days
Real estate fund	34,226,741	-	Monthly/ quarterly	10-180 days
Domestic equities fund	13,203,319	-	Daily	10 days
	<u>\$ 84,719,745</u>	<u>\$ -</u>		

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 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 domestic equities 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Police and Fire Retirement System VEBA* - The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust had the following recurring fair value measurements as of December 31, 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 December 31, 2018
Debt securities:				
U.S. government obligations and agencies	\$ -	\$ 1,433,597	\$ -	\$ 1,433,597
Mortgage-backed securities	-	1,354,648	-	1,354,648
Collateralized mortgage obligations	-	250,142	-	250,142
Asset-backed securities	-	698,435	-	698,435
Corporate bonds	-	1,190,578	-	1,190,578
Foreign bonds and notes	-	119,100	-	119,100
Equity securities:				
Common stock	21,760,227	-	-	21,760,227
Real estate investment trusts	752,159	-	-	752,159
Total investments at fair value	<u>\$ 22,512,386</u>	<u>\$ 5,046,500</u>	<u>\$ -</u>	<u>27,558,886</u>
Investments measured at NAV				
Bond fund				3,723,216
Limited partnerships				<u>2,811,609</u>
Total investments at NAV				<u>6,534,825</u>
Total investments				<u>\$ 34,093,711</u>

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, 2018 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 Trust did not have any investments determined primarily based on Level 3 inputs at December 31, 2018.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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	\$ 3,723,216	\$ -	Monthly	15 days
Limited partnerships	2,811,609	-	Quarterly	10 days
	<u>\$ 6,534,825</u>	<u>\$ -</u>		

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.

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

In addition, the Trust has an investment for approximately \$1,219,052 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	\$ 18,564,007	\$ -
Accounts	2,474,525	-
Intergovernmental	2,974,122	-
Interest receivable	38,064	3,032
Less allowance for doubtful accounts	<u>(13,952,878)</u>	<u>-</u>
Net receivables	<u>\$ 10,097,840</u>	<u>\$ 3,032</u>

At June 30, 2019, approximately \$3.7 million of the net receivables in governmental activities are not expected to be collected within one year.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 25,105,058	\$ -	\$ -	\$ 25,105,058
Construction in progress	1,589,687	3,027,632	(1,384,934)	3,232,385
Total capital assets not being depreciated	26,694,745	3,027,632	(1,384,934)	28,337,443
Capital assets being depreciated:				
Streets and bridges	298,246,441	3,265,826	1,157,418	302,669,685
Buildings and improvements	40,648,275	157,492	-	40,805,767
Machinery and equipment	661,622	243,859	227,516	1,132,997
Vehicles	714,903	329,663	-	1,044,566
Land improvements	374,952	-	-	374,952
Total capital assets being depreciated	340,646,193	3,996,840	1,384,934	346,027,967
Less accumulated depreciation for:				
Streets and bridges	(236,712,838)	(4,872,448)	-	(241,585,286)
Buildings and improvements	(39,963,939)	(101,559)	-	(40,065,498)
Machinery and equipment	(409,427)	(78,179)	-	(487,606)
Vehicles	(643,721)	(74,221)	-	(717,942)
Land improvements	(172,081)	(17,560)	-	(189,641)
Total accumulated depreciation	(277,902,006)	(5,143,967)	-	(283,045,973)
Total capital assets being depreciated, net	62,744,187	(1,147,127)	1,384,934	62,981,994
Governmental activities capital assets, net	\$ 89,438,932	\$ 1,880,505	\$ -	\$ 91,319,437

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	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	(26,758,234)	(564,861)	-	(27,323,095)
Traffic signs	(57,182)	-	-	(57,182)
Total accumulated depreciation	(26,815,416)	(564,861)	-	(27,380,277)
Total capital assets being depreciated, net	6,815,079	(564,861)	-	6,250,218
Parking fund capital assets, net	\$ 9,857,616	\$ (564,861)	\$ -	\$ 9,292,755

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

Depreciation of governmental activities by function	
General government	\$ 102,639
Public safety	34,397
Public works	4,962,803
Community and human services	44,128
Total depreciation expense - governmental activities	\$ 5,143,967
Depreciation of business-type activities by function	
Parking	\$ 564,861

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

	Spent to Date	Remaining Commitment
Governmental activities:		
Nichols Heating & Cooling	\$ 24,425	\$ 65,835
Great Lakes Contracting Solutions, LLC	501,518	52,808
Cadillac Asphalt, LLC	1,246,070	1,054,880
North American Construction Ent, LLC	-	1,318,454
Pamar Enterprises, Inc.	-	1,617,807
Michigan Joint Ceiling	-	96,741
	\$ 1,772,013	\$ 4,206,525

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2019, the composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General fund	District court fund	<u>\$ 724,424</u>

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

For the year ended June 30, 2019, 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 (1) (2)	\$ 946,047
	Major street (1)	18,484
	Local street (1)	14,125
	Sanitation fund (1)	291
	Nonmajor governmental funds (1)	37,670
	Internal service funds (1) (5)	501,424
District court	General fund (3)	23,585
	MIDC grant fund (6)	17,635
PA-48 telecommunication allocation	General fund (4)	<u>225,000</u>
	Total	<u>\$ 1,784,261</u>

During the fiscal year transfers were used to (1) Transfer for approved salary increases mid-year (2) Transfer for subsidy of District Court operations (3) Transfer for parking fine collections (4) Transfer for allowable expenditures under Metro Act (5) Retiree health care settlement (6) City match on MIDC grant.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 7. LONG-TERM DEBT

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Other long-term obligations:					
2007C TIFA Bond					
Financial Guarantee	\$ 6,919,646	\$ -	\$ (3,489,338)	\$ 3,430,308	\$ 590,872
Compensated absences	432,232	-	(31,448)	400,784	205,198
Landfill closure and postclosure costs	2,166,758	9,630	-	2,176,388	-
Phoenix Center Settlement	7,350,000	-	(4,550,000)	2,800,000	700,000
<b>Total governmental activities</b>	<b>\$ 16,868,636</b>	<b>\$ 9,630</b>	<b>\$ (8,070,786)</b>	<b>\$ 8,807,480</b>	<b>\$ 1,496,070</b>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component units</b>					
Direct Borrowings and Direct Placements:					
\$31,080,000 2007 C TIFA Bonds, due in annual installments of \$590,000 to \$1,985,000 through the year 2031; interest at 3.50% to 5.00%	\$ 21,150,000	\$ -	\$ (1,360,000)	\$ 19,790,000	\$ 1,410,000
Other long-term obligation:					
Financial guarantee	4,020,483	632,824	-	4,653,307	-
<b>Total component units</b>	<b>\$ 25,170,483</b>	<b>\$ 632,824</b>	<b>\$ (1,360,000)</b>	<b>\$ 24,443,307</b>	<b>\$ 1,410,000</b>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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

Year Ended June 30,	Governmental Activities		Component Units	
	Other long-term obligations		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2020	\$ 1,290,872	\$ -	\$ 1,410,000	\$ 928,363
2021	1,232,457	-	1,470,000	870,200
2022	1,456,011	-	1,860,000	796,700
2023	1,417,025	-	1,985,000	703,700
2024	348,781	-	1,715,000	604,450
2025-2029	485,162	-	8,030,000	1,857,663
2030-2031	-	-	3,320,000	223,424
	<u>\$ 6,230,308</u>	<u>\$ -</u>	<u>\$ 19,790,000</u>	<u>\$ 5,984,500</u>

Compensated absences and separation accruals in governmental activities of \$400,784 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 \$2,176,388 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 2019, total TIFA debt service amounted to \$2,342,762 of which \$632,824 was paid by the City and \$1,709,938 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 \$4,653,307 at June 30, 2019. This liability has been recorded as a long-term liability in the combining statement of net position for the discretely presented component units as funds to reimburse the general fund are not expected to be available until all TIFA debt service has been paid in full.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### *Phoenix Center Settlement*

The City settled litigation with Ottawa Towers regarding demolition of the Phoenix Center Parking Garage on November 13, 2018. The settlement agreement requires that the City retain ownership of the Phoenix Center and perform \$6 million of repairs on the Phoenix Center over a period of ten years from the time of settlement. Additionally, the City is required to pay annual installments of \$700,000 to Ottawa Towers through November 2022. 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	<u>\$ 2,122,397</u>

## 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 \$2,176,388 reported as landfill closure and postclosure liability at June 30, 2019 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, 2019. 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, 2019, investments and deposits held in trust of \$2,122,397 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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, 2019, 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	
	2019	2018	2019	2018
Unpaid claims -				
Beginning of year	\$ 492,720	\$ 697,674	\$ 1,055,669	\$ 1,609,172
Incurring claims (adjustments)	890,415	199,018	83,759	(344,810)
Claim payments	(1,239,808)	(403,972)	(155,693)	(208,693)
Unpaid claims -				
End of year	<u>\$ 143,327</u>	<u>\$ 492,720</u>	<u>\$ 983,735</u>	<u>\$ 1,055,669</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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 22 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, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (4.63%). 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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, 2018, 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, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	1,123
Inactive employees entitled to but not yet receiving benefits	118
Active employees	<u>29</u>
Total membership	<u><u>1,270</u></u>

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, 2018 are as follows:

Reserve / Group	Balance
Retiree reserve	\$ 225,505,181
Employee reserve	318,449

*Net Pension Asset.* The City's net pension asset was measured as of December 31, 2018.

*Actuarial Assumptions.* The total pension asset was determined by an actuarial valuation as of December 31, 2018. 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Long-term Expected Rate of Return.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity - Large Cap	20.00%	4.95%
Domestic equity - Mid Cap	17.50%	5.71%
Domestic equity - Small Cap	12.50%	5.71%
International equity	5.00%	5.24%
Emerging markets equity	5.00%	6.35%
Fixed income - Core	25.00%	1.99%
Real estate	10.00%	4.19%
Private equity	5.00%	0.00%
	<u>100.00%</u>	

*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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2017	\$ 267,204,400	\$ 506,436,677	\$ (239,232,277)
Changes for the year:			
Service cost	147,521	-	147,521
Interest	17,725,816	-	17,725,816
Changes in benefit terms	3,470,936	-	3,470,936
Differences between expected and actual experience	1,839,373	-	1,839,373
Benefit payments, including refunds of employee contributions	(28,199,311)	(28,199,310)	(1)
Net investment loss	-	(23,328,559)	23,328,559
Administrative expense	-	(770,714)	770,714
Miscellaneous other charges/revenue	-	35,826	(35,826)
Net changes	(5,015,665)	(52,262,757)	47,247,092
Balances at December 31, 2018	\$ 262,188,735	\$ 454,173,920	\$ (191,985,185)

*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	\$ (167,374,423)	\$ (191,985,185)	\$ (212,924,998)

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended June 30, 2019, the City recognized pension expense of \$2,589,361. At June 30, 2019, 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	\$ -	\$ 1,186,873	\$ (1,186,873)
Net difference between projected and actual earnings on pension plan investments	31,796,495	-	31,796,495
Total	<u>\$ 31,796,495</u>	<u>\$ 1,186,873</u>	<u>\$ 30,609,622</u>

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
2020	\$ 11,628,479
2021	3,786,928
2022	4,026,579
2023	11,273,322
2024	(105,686)
Total	<u>\$ 30,609,622</u>

### 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*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, 2018, the annual money-weighted rate of return on pension plan investments was (4.19%). 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, 2018, the City's required and actual contribution was \$2,412,557. There were no contributions due from members during fiscal year 2018.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

*Employees Covered by Benefit Terms.* At December 31, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	431
Inactive employees entitled to but not yet receiving benefits	<u>136</u>
Total membership	<u><u>567</u></u>

*Reserves.* As of December 31, 2018, 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, 2018 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 243,941,564	\$ 205,428,732
Employer reserve	1,209,529	1,209,529

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2018.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2018. 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 24 years

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2018.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	45.00%	5.74%
International equity	12.00%	6.94%
Domestic bonds	18.00%	2.01%
International bonds	5.00%	3.02%
Real estate	10.00%	3.81%
Other assets	10.00%	5.43%
	<u>100.00%</u>	

*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, 2017	<u>\$ 247,226,144</u>	<u>\$ 232,221,141</u>	<u>\$ 15,005,003</u>
Changes for the year:			
Interest	17,768,283	-	17,768,283
Changes in benefit terms	464,793	-	464,793
Differences between expected and actual experience	(451,296)	-	(451,296)
Employer contributions	-	2,412,557	(2,412,557)
Changes of assumptions	(434,944)	-	(434,944)
Benefit payments, including refunds of employee contributions	(20,631,416)	(20,631,416)	-
Net investment loss	-	(7,116,516)	7,116,516
Administrative expense	-	(257,590)	257,590
Other	-	10,085	(10,085)
Net changes	<u>(3,284,580)</u>	<u>(25,582,880)</u>	<u>22,298,300</u>
Balances at December 31, 2018	<u>\$ 243,941,564</u>	<u>\$ 206,638,261</u>	<u>\$ 37,303,303</u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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	\$ 62,545,188	\$ 37,303,303	\$ 16,129,443

*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, 2019, the City recognized pension expense of \$6,251,447. At June 30, 2019, the City reported deferred outflows 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	\$ 13,608,242	\$ -	\$ 13,608,242
Contributions subsequent to measurement date	2,133,428	-	2,133,428
Total	<u>\$ 15,741,670</u>	<u>\$ -</u>	<u>\$ 15,741,670</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2020. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended	Amount
2020	\$ 4,902,839
2021	1,744,383
2022	2,192,898
2023	<u>4,768,122</u>
Total	<u>\$ 13,608,242</u>

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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 \$4,553,595. The current year contribution was calculated based on covered payroll of \$1,725,873, resulting in employer contributions of \$56,014 and employee contributions of \$96,839. As of June 30, 2019, there were 33 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.

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

### 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, 2019, 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 were the subject of a separate lawsuit. No employer contributions have been made for fiscal years 2012 and later.

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 and the City. The settlement is still pending approval by the U.S. District Court and Internal Revenue Service. If fully approved, the settlement agreement would provide health care 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 was intended to resolve the Trust’s pending lawsuit against the City seeking payment of the FY 2012 annual contribution in the amount of \$3,473,923.

On July 31, 2019, a judgement was entered regarding the Board of Trustees and Fire VEBA FY 2012 annual contribution of \$3,473,923. The City was directed to pay the FY 2012 contribution of \$3,473,923 plus interest of \$600,052 for a total award of \$4,073,975 to the VEBA. The City and the VEBA entered into a settlement on October 31, 2019 which would offset the receivables owed from the VEBA to the City as of October 31, 2019 and prospectively monies the VEBA will be indebted to the City relating to insurance premium payments until the \$4,073,975 was paid in full. In addition, the award in the VEBA case of \$4,073,975 would offset the initial contribution of \$4,250,000 mandated in the settlement of the Retired Employees Association vs City of Pontiac case.

*Method Used to Value Investments.* Investments are reported at estimated fair 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.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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

*Rate of Return.* For the year ended December 31, 2018, the annual money-weighted rate of return on OPEB plan investments was (6.82%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

*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. Contributions for the City's fiscal year ended June 30, 2018 have been actuarially determined as a part of the December 31, 2017 actuarial valuation at \$82,480. However, scheduled contributions were not paid to the Trust by the City. In the current year, the Trust recorded a contribution receivable and corresponding revenue in the amount of \$4,073,975 related to a court judgment against the City in favor of the Trust.

Certain retirees are required to contribute toward the premiums paid on their behalf. Benefit expense for the year ended December 31, 2018 was \$2,304,955, which is net of \$673,199 in retiree contributions toward premiums.

*Employees Covered by Benefit Terms.* At December 31, 2018, 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
	<hr/>
Total membership	320
	<hr/>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Net OPEB Liability.* The City's net OPEB liability was measured as of December 31, 2018.

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of December 31, 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Healthcare cost trend rate	8.50% 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 2018 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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	52.50%	5.74%
International equity	12.50%	6.94%
Domestic bonds	15.00%	2.01%
International bonds	5.00%	3.02%
Alternative assets	15.00%	5.77%
	<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total OPEB liability at December 31, 2018 was 6.90 percent; however, the discount rate used to measure the total OPEB liability at the beginning of the year was 6.50 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 4.11 percent at December 31, 2018. 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 - 2057 and the municipal bond rate was applied to the remaining periods.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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, 2017	\$ 47,032,505	\$ 40,952,046	\$ 6,080,459
Changes for the year:			
Interest	2,983,381	-	2,983,381
Differences between expected and actual experience	(2,597,547)	-	(2,597,547)
Employer contributions	-	4,073,975	(4,073,975)
Changes of assumptions	(2,409,464)	-	(2,409,464)
Benefit payments, including refunds of employee contributions	(2,304,955)	(2,304,955)	-
Net investment loss	-	(2,848,439)	2,848,439
Administrative expense	-	(55,482)	55,482
Net changes	(4,328,585)	(1,105,852)	(3,222,733)
Balances at December 31, 2018	\$ 42,703,920	\$ 39,846,194	\$ 2,857,726

*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 6.9%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (5.9%) or 1% higher (7.9%) than the current rate:

	1% Decrease (5.9%)	Current Discount Rate (6.9%)	1% Increase (7.9%)
City's net OPEB liability	\$ 9,308,498	\$ 2,857,726	\$ (2,335,731)

*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 8.5%, 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 (7.5%) or 1% higher (9.5%) than the current rate:

	1% Decrease (7.5%)	Healthcare Cost Trend Rate (8.5%)	1% Increase (9.5%)
City's net OPEB liability	\$ (2,676,020)	\$ 2,857,726	\$ 9,655,040

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* For the year ended June 30, 2019, the City recognized OPEB expense of \$4,252,891. At June 30, 2019, the City reported deferred outflows 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	\$ 3,743,763	\$ -	\$ 3,743,763

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

Year Ended June 30,	Amount
2020	\$ 850,918
2021	850,918
2022	850,918
2023	<u>1,191,009</u>
Total	<u>\$ 3,743,763</u>

### 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, 2018, plan membership consisted of the following:

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

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of December 31, 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Healthcare cost trend rate	8.50% decreasing 0.25% per year to an ultimate rate of 5.00% 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 4.11 percent at December 31, 2018. 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, 2017	<u>\$ 80,432,528</u>
Changes for the year:	
Interest	2,693,118
Differences between expected and actual experience	(8,545,849)
Changes of assumptions	(5,607,379)
Benefit payments, including refunds of employee contributions	<u>(4,325,000)</u>
Net changes	<u>(15,785,110)</u>
Balances at December 31, 2018	<u><u>\$ 64,647,418</u></u>

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

*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 4.11%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.11%) or 1% higher (5.11%) than the current rate:

	1% Decrease (3.11%)	Current Discount Rate (4.11%)	1% Increase (5.11%)
City's total OPEB liability	\$ 73,335,675	\$ 64,647,418	\$ 57,616,843

*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 (7.5% Decreasing to 4.0%)	Healthcare Cost Trend Rate (8.5% Decreasing to 5.0%)	1% Increase (9.5% Decreasing to 6.0%)
City's total OPEB liability	\$ 57,289,136	\$ 64,647,418	\$ 73,578,908

*OPEB Expense.* For the year ended June 30, 2019, the City recognized OPEB expense of (\$11,460,110).

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

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

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

	Plan Net Position as of December 31, 2018			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 420,321	\$ -	\$ 595,749	\$ 1,016,070
Investments at fair value:				
U.S. government obligations and agencies	-	-	1,433,597	1,433,597
Government agency notes and debentures	62,163,411	-	-	62,163,411
Mortgage-backed securities	-	-	1,354,648	1,354,648
Collateralized mortgage obligations	-	-	250,142	250,142
U.S. government securities	-	21,122,769	-	21,122,769
U.S. government mortgage-backed securities	31,780,555	2,578,057	-	34,358,612
Commercial mortgage pools	1,727,405	-	-	1,727,405
Asset-backed securities	1,222,866	-	698,435	1,921,301
Corporate and other bonds	14,971,522	14,000,403	1,190,578	30,162,503
Foreign bonds and notes	-	-	119,100	119,100
Limited partnerships	51,433,793	25,321,255	6,534,825	83,289,873
Domestic stock	-	116,875,110	-	116,875,110
Short-term investments	12,403,127	8,092,998	1,219,052	21,715,177
Equities	-	-	21,760,227	21,760,227
Domestic equities	226,259,625	-	-	226,259,625
Private equities	11,477,137	-	-	11,477,137
Foreign equities	39,966,376	-	-	39,966,376
Real estate	-	18,428,545	-	18,428,545
Real estate investment trusts	-	-	752,159	752,159
Accrued interest and dividends receivable	1,240,663	258,486	52,164	1,551,313
Due from broker	-	-	5,073	5,073
Other receivables	8,668	-	4,073,975	4,082,643
Due from Police and Fire Retirement System VEBA	-	86,983	-	86,983
<b>Total assets</b>	<b>455,075,469</b>	<b>206,764,606</b>	<b>40,039,724</b>	<b>701,879,799</b>

continued...

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	Plan Net Position as of December 31, 2018			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Liabilities				
Due to City of Pontiac	\$ -	\$ -	\$ 72,493	\$ 72,493
Due to Police and Fire Retirement System	-	-	86,983	86,983
Accounts payable and other	901,549	126,345	34,054	1,061,948
Total liabilities	901,549	126,345	193,530	1,221,424
Net position restricted for pension and other employee benefits	\$ 454,173,920	\$ 206,638,261	\$ 39,846,194	\$ 700,658,375

concluded.

	Changes in Plan Net Position for the Year Ended December 31, 2018			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Additions				
Investment income:				
Interest and dividend income	\$ 9,235,936	\$ 4,748,967	\$ 801,271	\$ 14,786,174
Net decrease in fair value	(29,725,262)	(11,058,902)	(3,497,537)	(44,281,701)
Less investment related expenses	(2,839,233)	(806,581)	(152,173)	(3,797,987)
Net investment loss	(23,328,559)	(7,116,516)	(2,848,439)	(33,293,514)
Contributions - Employer	-	2,412,557	4,073,975	6,486,532
Miscellaneous and litigation revenue	47,079	10,085	29,049	86,213
Total additions	(23,281,480)	(4,693,874)	1,254,585	(26,720,769)

continued...

# CITY OF PONTIAC, MICHIGAN

## Notes to Financial Statements

	Changes in Plan Net Position for the Year Ended December 31, 2018			
	General City Employees' Retirement System	Police and Fire Retirement System	Police and Fire Retirement System VEBA	Total
Deductions (continued)				
Retirees' pension benefits	\$ 28,199,310	\$ 20,631,416	\$ -	\$ 48,830,726
Retiree health benefit payments	-	-	2,304,955	2,304,955
Administrative expenses	781,967	257,590	55,482	1,095,039
Total deductions	28,981,277	20,889,006	2,360,437	52,230,720
Change in net position	(52,262,757)	(25,582,880)	(1,105,852)	(78,951,489)
Net position:				
Beginning of year	506,436,677	232,221,141	40,952,046	779,609,864
End of year	\$ 454,173,920	\$ 206,638,261	\$ 39,846,194	\$ 700,658,375

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:

**Retired Employees Association vs City of Pontiac.** On April 4, 2017, the City announced that a tentative agreement had been reached regarding retiree healthcare in this case. A final settlement was agreed upon in November 2018. As of the date of this report, the settlement has been approved by the plaintiffs and the City. The settlement is still pending approval by the U.S. District Court and 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 agreement, the City's initial contribution to the new VEBA will be \$4,250,000 less any awards against the City in the Board of Trustees Police and Fire VEBA vs City of Pontiac litigation.

## CITY OF PONTIAC, MICHIGAN

### Notes to Financial Statements

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 for the amount of \$3,473,923.

On July 31, 2019, a judgement was entered regarding the Board of Trustees and Fire VEBA FY 2012 annual contribution of \$3,473,923. The City was directed to pay the FY 2012 contribution of \$3,473,923 plus interest of \$600,052 for a total award of \$4,073,975 to the VEBA. The City and the VEBA entered into a settlement on October 31, 2019 which would offset the receivables owed from the VEBA to the City as of October 31, 2019 and prospectively monies the VEBA will be indebted to the City relating to insurance premium payments until the \$4,073,975 was paid in full. In addition, the award in the VEBA case of \$4,073,975 would offset the initial contribution of \$4,250,000 mandated in the settlement of the Retired Employees Association vs City of Pontiac case.

### 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 \$128,314 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$21,719 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 \$566,653 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 \$1,662,769 in reduced City tax revenues for the year.

# CITY OF PONTIAC, MICHIGAN

## 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	\$ 30,209	\$ -	\$ -	\$ 1	\$ 1,487	\$ 51,789	\$ 83,486
Restricted							
Roads	-	2,492,968	4,988,092	-	-	-	7,481,060
Drug enforcement	-	-	-	-	-	227,440	227,440
Capital projects	-	-	-	-	-	3,012,945	3,012,945
Sanitation	-	-	-	6,177,610	-	-	6,177,610
Senior activities	-	-	-	-	-	1,031,559	1,031,559
Community development	-	-	-	-	-	30,335	30,335
Home buyers assistance	-	-	-	-	-	3,638	3,638
Cable television	-	-	-	-	-	1,200,377	1,200,377
Youth recreation	-	-	-	-	-	220,955	220,955
Telecommunications	-	-	-	-	-	57,750	57,750
Building inspection	-	-	-	-	-	924,158	924,158
Total restricted	-	2,492,968	4,988,092	6,177,610	-	6,709,157	20,367,827
Committed							
Youth recreation	3,200,000	-	-	-	-	-	3,200,000
Assigned							
Phoenix Center Settlement	2,800,000	-	-	-	-	-	2,800,000
Unassigned	12,554,802	-	-	-	-	-	12,554,802
Total fund balances	\$ 18,585,011	\$ 2,492,968	\$ 4,988,092	\$ 6,177,611	\$ 1,487	\$ 6,760,946	\$ 39,006,115

### 20. OPERATING LEASE

The City entered into leases for buildings under non-cancelable operating lease agreements. The total lease expense for the year ending June 30, 2019 was \$356,000. The future minimum lease payments for these leases are as follows:

Year Ended June 30,	Amount
2020	\$ 382,000
2021	382,000
2022	70,000
	<u>\$ 834,000</u>

■ ■ ■ ■ ■

## REQUIRED SUPPLEMENTARY INFORMATION

# CITY OF PONTIAC, MICHIGAN

## 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,				
	2015	2016	2017	2018	2019
Change in total pension liability					
Service cost	\$ 279,187	\$ 314,272	\$ 324,671	\$ 350,549	\$ 147,521
Interest	19,973,828	19,232,034	17,944,933	17,598,425	17,725,816
Changes in benefit terms	-	5,407,365	-	10,658,814	3,470,936
Differences between expected and actual experience	(2,538,358)	(23,548,600)	5,189,027	871,705	1,839,373
Changes in assumptions	-	9,124,140	15,686,953	-	-
Benefit payments, including refunds of member contributions	(27,507,232)	(28,052,593)	(27,119,534)	(26,916,912)	(28,199,311)
Net change in total pension liability	(9,792,575)	(17,523,382)	12,026,050	2,562,581	(5,015,665)
Total pension liability, beginning	279,931,726	270,139,151	252,615,769	264,641,819	267,204,400
Total pension liability, ending (a)	270,139,151	252,615,769	264,641,819	267,204,400	262,188,735
Change in plan fiduciary net position					
Net investment income (loss)	29,460,854	(3,414,613)	34,606,547	67,868,606	(23,328,559)
Benefit payments, including refunds of member contributions	(27,507,232)	(28,052,593)	(27,119,534)	(26,916,912)	(28,199,310)
Administrative expense	(699,715)	(954,593)	(683,083)	(696,340)	(770,714)
Other	-	37,357	5,748	29,291	35,826
Net change in plan fiduciary net position	1,253,907	(32,384,442)	6,809,678	40,284,645	(52,262,757)
Plan fiduciary net position, beginning	490,472,889	491,726,796	459,342,354	466,152,032	506,436,677
Plan fiduciary net position, ending (b)	491,726,796	459,342,354	466,152,032	506,436,677	454,173,920
City's net pension asset, ending (a)-(b)	\$ (221,587,645)	\$ (206,726,585)	\$ (201,510,213)	\$ (239,232,277)	\$ (191,985,185)
Plan fiduciary net position as a percentage of the total pension liability	182.0%	181.8%	176.1%	189.5%	173.2%
Covered payroll	\$ 1,478,241	\$ 1,528,731	\$ 1,540,472	\$ 1,450,352	\$ 1,427,628
City's net pension asset as a percentage of covered payroll	14990.0%	13522.8%	13081.1%	16494.8%	13447.8%

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 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	14990.0%
2016	252,615,769	459,342,354	(206,726,585)	181.83%	1,528,731	13522.8%
2017	264,641,819	466,152,032	(201,510,213)	176.14%	1,540,472	13081.1%
2018	267,204,400	506,436,677	(239,232,277)	189.53%	1,450,352	16494.8%
2019	262,188,735	454,173,920	(191,985,185)	173.22%	1,427,628	13447.8%

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

### 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%
2019	-	-	-	1,427,628	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, 2018.

#### 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

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information General Employees' Retirement System

#### Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return <sup>(1)</sup>
2015	6.76%
2016	-0.84%
2017	7.79%
2018	15.31%
2019	-4.63%

<sup>(1)</sup> 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,				
	2015	2016	2017	2018	2019
Change in total pension liability					
Interest	\$ 17,801,885	\$ 17,667,136	\$ 18,142,691	\$ 18,015,944	\$ 17,768,283
Changes in benefit terms	-	1,179,108	780,417	765,616	464,793
Differences between expected and actual experience	67,662	4,777,253	2,964,382	(575,621)	(451,296)
Changes in assumptions	-	3,437,195	(2,147,637)	(606,903)	(434,944)
Benefit payments, including refunds of member contributions	(19,581,140)	(19,751,254)	(21,688,683)	(21,170,946)	(20,631,416)
Net change in total pension liability	(1,711,593)	7,309,438	(1,948,830)	(3,571,910)	(3,284,580)
Total pension liability, beginning	247,149,039	245,437,446	252,746,884	250,798,054	247,226,144
Total pension liability, ending (a)	245,437,446	252,746,884	250,798,054	247,226,144	243,941,564
Change in plan fiduciary net position					
Contributions - employer	901,797	2,327,949	2,041,923	1,773,627	2,412,557
Net investment income (loss)	15,235,786	1,600,942	18,343,180	28,866,568	(7,116,516)
Benefit payments, including refunds of member contributions	(19,581,140)	(19,751,254)	(21,688,683)	(21,170,946)	(20,631,416)
Administrative expense	(332,389)	(328,225)	(300,220)	(310,593)	(257,590)
Other	40,671	1,020	25,735	5,188	10,085
Net change in plan fiduciary net position	(3,735,275)	(16,149,568)	(1,578,065)	9,163,844	(25,582,880)
Plan fiduciary net position, beginning	244,520,205	240,784,930	224,635,362	223,057,297	232,221,141
Plan fiduciary net position, ending (b)	240,784,930	224,635,362	223,057,297	232,221,141	206,638,261
City's net pension liability, ending (a)-(b)	\$ 4,652,516	\$ 28,111,522	\$ 27,740,757	\$ 15,005,003	\$ 37,303,303
Plan fiduciary net position as a percentage of the total pension liability	98.1%	88.9%	88.9%	93.9%	84.7%
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -
City's net pension liability as a percentage of covered payroll	0.0%	0.0%	0.0%	0.0%	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.

## CITY OF PONTIAC, MICHIGAN

### 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%
2019	243,941,564	206,638,261	37,303,303	84.71%	-	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.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information

### Police and Fire Retirement System

#### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution 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%
2019	2,412,557	2,412,557	-	-	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, 2018.

#### 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-2018 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

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information

#### Police and Fire Retirement System

##### Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Return <sup>(1)</sup>
2015	6.22%
2016	0.38%
2017	9.86%
2018	14.25%
2019	-4.19%

<sup>(1)</sup> 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.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information Police and Fire Retirement System VEBA

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

	Year Ended June 30,	
	2018	2019
Total OPEB liability		
Interest on total OPEB liability	\$ 2,890,913	\$ 2,983,381
Difference between expected and actual experience	3,832,503	(2,597,547)
Changes of assumptions	551,988	(2,409,464)
Benefit payments	(1,887,615)	(2,304,955)
Net change in total OPEB liability	5,387,789	(4,328,585)
Total OPEB liability, beginning of year	41,644,716	47,032,505
Total OPEB liability, end of year	47,032,505	42,703,920
Plan fiduciary net position		
Contributions - employer	\$ -	\$ 4,073,975
Benefit payments, including refunds	(1,887,615)	(2,304,955)
OPEB plan net investment income (loss)	4,508,528	(2,848,439)
Administrative expense	(95,449)	(55,482)
Other	845	29,049
Net change in plan fiduciary net position	2,526,309	(1,105,852)
Plan fiduciary net position, beginning of year	38,425,737	40,952,046
Plan fiduciary net position, end of year	40,952,046	39,846,194
Net OPEB liability	\$ 6,080,459	\$ 2,857,726
Plan fiduciary net position as a percentage of total OPEB liability	87.1%	93.3%

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.

## CITY OF PONTIAC, MICHIGAN

### 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	87.1%	n/a	n/a
2019	42,703,920	39,846,194	2,857,726	93.3%	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.

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information Police and Fire Retirement System VEBA

#### Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 287,012	\$ -	\$ 287,012	n/a	n/a
2019	82,480	-	82,480	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	27 years
Asset valuation method	Market value
Inflation	2.25%
Health care trend rates	8.50% decreasing 0.50% per year to an ultimate rate of 5.0% for 2026 and later
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Mortality	SOA RPH-2006 Total Dataset Mortality Table fully generational with SS 2018 improvement scale

## CITY OF PONTIAC, MICHIGAN

### Required Supplementary Information Police and Fire Retirement System VEBA

#### Schedule of Investment Returns

Fiscal Year Ending June 30,	Annual Return <sup>(1)</sup>
2018	12.4%
2019	-6.8%

<sup>(1)</sup> 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.

# CITY OF PONTIAC, MICHIGAN

## Required Supplementary Information Retiree Health Care Plan

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

	Year Ended June 30,	
	2018	2019
Total OPEB liability		
Interest on total OPEB liability	\$ 3,237,511	\$ 2,693,118
Changes in benefit terms	(6,518,093)	-
Difference between expected and actual experience	391,102	(8,545,849)
Changes of assumptions	(4,610,100)	(5,607,379)
Benefit payments	-	(4,325,000)
Net change in total OPEB liability	(7,499,580)	(15,785,110)
Total OPEB liability, beginning of year	87,932,108	80,432,528
Total OPEB liability, end of year	<u>\$ 80,432,528</u>	<u>\$ 64,647,418</u>
Covered-employee payroll	n/a	n/a
Total OPEB liability as a percentage of covered-employee payroll	n/a	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.

## CITY OF PONTIAC, MICHIGAN

### 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
2019	64,647,418	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.

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes and special assessments	\$ 7,779,063	\$ 7,779,063	\$ 8,403,182	\$ 624,119
Income taxes	13,450,000	13,450,000	14,456,678	1,006,678
Federal revenue	115,000	115,000	85,972	(29,028)
State revenue	10,096,287	10,096,287	10,557,441	461,154
Charges for services	1,125,600	1,125,600	954,247	(171,353)
Fines and forfeitures	108,000	108,000	8,000	(100,000)
Licenses and permits	195,000	195,000	192,758	(2,242)
Interest and rental revenue	376,000	376,000	997,953	621,953
Other revenue	2,433,704	2,433,704	1,673,351	(760,353)
<b>Total revenues</b>	<b>35,678,654</b>	<b>35,678,654</b>	<b>37,329,582</b>	<b>1,650,928</b>
<b>Expenditures</b>				
Current:				
General government	5,615,884	9,135,655	8,738,249	(397,406)
Public safety	20,004,502	20,009,582	19,856,095	(153,487)
Public works	2,584,894	2,684,884	2,098,159	(586,725)
Health and welfare	150,000	150,000	-	(150,000)
Community and economic development	2,555,850	2,392,425	1,560,859	(831,566)
Recreation and culture	676,964	720,611	510,475	(210,136)
Retiree fringe benefits	2,452,662	2,452,662	2,133,428	(319,234)
<b>Total expenditures</b>	<b>34,040,755</b>	<b>37,545,819</b>	<b>34,897,265</b>	<b>(2,648,554)</b>
<b>Revenues over (under) expenditures</b>	<b>1,637,899</b>	<b>(1,867,165)</b>	<b>2,432,317</b>	<b>4,299,482</b>
<b>Other financing sources (uses)</b>				
Transfers in	480,000	480,337	248,585	(231,752)
Transfers out	(2,114,555)	(2,188,182)	(1,518,041)	(670,141)
<b>Total other financing sources (uses)</b>	<b>(1,634,555)</b>	<b>(1,707,845)</b>	<b>(1,269,456)</b>	<b>438,389</b>
<b>Net change in fund balance</b>	<b>3,344</b>	<b>(3,575,010)</b>	<b>1,162,861</b>	<b>4,737,871</b>
<b>Fund balance, beginning of year</b>	<b>17,422,150</b>	<b>17,422,150</b>	<b>17,422,150</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 17,425,494</b>	<b>\$ 13,847,140</b>	<b>\$ 18,585,011</b>	<b>\$ 4,737,871</b>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

Major Streets Special Revenue Fund  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 4,995,130	\$ 4,995,130	\$ 5,880,723	\$ 885,593
Charges for services	-	-	15,851	15,851
Interest	20,523	20,523	30,733	10,210
Other revenue	-	-	71,003	71,003
	<u>5,015,653</u>	<u>5,015,653</u>	<u>5,998,310</u>	<u>982,657</u>
Total revenues				
Expenditures				
Public works	<u>7,838,563</u>	<u>7,857,047</u>	<u>6,187,229</u>	<u>(1,669,818)</u>
Revenues under expenditures	(2,822,910)	(2,841,394)	(188,919)	2,652,475
Other financing sources				
Transfers in	<u>-</u>	<u>18,484</u>	<u>18,484</u>	<u>-</u>
Net change in fund balance	(2,822,910)	(2,822,910)	(170,435)	2,652,475
Fund balance, beginning of year	<u>2,663,403</u>	<u>2,663,403</u>	<u>2,663,403</u>	<u>-</u>
Fund balance, end of year	<u>\$ (159,507)</u>	<u>\$ (159,507)</u>	<u>\$ 2,492,968</u>	<u>\$ 2,652,475</u>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

Local Streets Special Revenue Fund  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
State revenue	\$ 1,522,860	\$ 1,644,017	\$ 1,550,925	\$ (93,092)
Interest	21,493	21,493	102,735	81,242
Total revenues	1,544,353	1,665,510	1,653,660	(11,850)
Expenditures				
Public works	2,855,410	4,726,906	2,613,045	(2,113,861)
Revenues under expenditures	(1,311,057)	(3,061,396)	(959,385)	2,102,011
Other financing sources				
Transfers in	-	14,125	14,125	-
Net change in fund balance	(1,311,057)	(3,047,271)	(945,260)	2,102,011
Fund balance, beginning of year	5,933,352	5,933,352	5,933,352	-
Fund balance, end of year	<u>\$ 4,622,295</u>	<u>\$ 2,886,081</u>	<u>\$ 4,988,092</u>	<u>\$ 2,102,011</u>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

Sanitation Special Revenue Fund  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes and special assessments	\$ 1,709,919	\$ 1,709,919	\$ 1,865,787	\$ 155,868
Charges for services	1,675,000	1,675,000	1,671,488	(3,512)
State revenue	51,620	51,620	103,490	51,870
Interest	25,852	25,852	102,794	76,942
	<u>3,462,391</u>	<u>3,462,391</u>	<u>3,743,559</u>	<u>281,168</u>
<b>Total revenues</b>				
	3,462,391	3,462,391	3,743,559	281,168
<b>Expenditures</b>				
Public works	4,401,286	4,401,577	3,782,087	(619,490)
	<u>4,401,286</u>	<u>4,401,577</u>	<u>3,782,087</u>	<u>(619,490)</u>
<b>Revenues under expenditures</b>				
	(938,895)	(939,186)	(38,528)	900,658
<b>Other financing sources</b>				
Transfers in	-	291	291	-
	<u>-</u>	<u>291</u>	<u>291</u>	<u>-</u>
<b>Net change in fund balance</b>				
	(938,895)	(938,895)	(38,237)	900,658
<b>Fund balance, beginning of year</b>				
	6,215,848	6,215,848	6,215,848	-
	<u>6,215,848</u>	<u>6,215,848</u>	<u>6,215,848</u>	<u>-</u>
<b>Fund balance, end of year</b>				
	\$ 5,276,953	\$ 5,276,953	\$ 6,177,611	\$ 900,658
	<u>\$ 5,276,953</u>	<u>\$ 5,276,953</u>	<u>\$ 6,177,611</u>	<u>\$ 900,658</u>

# CITY OF PONTIAC, MICHIGAN

## Budgetary Comparison Schedule

District Court Special Revenue Fund  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
State revenue	\$ 187,639	\$ 187,639	\$ 182,896	\$ (4,743)
Charges for services	673,795	673,795	773,290	99,495
Fines and forfeitures	1,083,635	1,083,635	1,079,420	(4,215)
Other revenue	876,540	81,499	-	(81,499)
Interest	1,500	1,500	1,869	369
<b>Total revenues</b>	<b>2,823,109</b>	<b>2,028,068</b>	<b>2,037,475</b>	<b>9,407</b>
<b>Expenditures</b>				
District court	4,168,344	3,349,284	2,942,908	(406,376)
<b>Revenues under expenditures</b>	<b>(1,345,235)</b>	<b>(1,321,216)</b>	<b>(905,433)</b>	<b>415,783</b>
<b>Other financing sources (uses)</b>				
Transfers in	1,374,555	1,375,851	946,047	(429,804)
Transfers out	(15,000)	(40,315)	(41,220)	905
<b>Total other financing sources (uses)</b>	<b>1,359,555</b>	<b>1,335,536</b>	<b>904,827</b>	<b>(430,709)</b>
<b>Net change in fund balance</b>	<b>14,320</b>	<b>14,320</b>	<b>(606)</b>	<b>(14,926)</b>
<b>Fund balance, beginning of year</b>	<b>2,093</b>	<b>2,093</b>	<b>2,093</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 16,413</b>	<b>\$ 16,413</b>	<b>\$ 1,487</b>	<b>\$ (14,926)</b>

# CITY OF PONTIAC, MICHIGAN

## Note to Required Supplementary Information

### 1. BUDGETARY INFORMATION

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

Budget requests are reviewed by the budget department, finance department and executive office. The final budget is adopted by June 30 each year. City Council adopted the final budget for the June 30, 2019 year end.

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

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

During the year ended June 30, 2019, the City incurred expenditures in excess of the amounts appropriated as follows:

	Amended Budget	Actual Actual	Over Budget
District court special revenue fund			
Transfers out	(40,315)	(41,220)	905

■ ■ ■ ■ ■

This page intentionally left blank.

## OTHER SUPPLEMENTAL INFORMATION

# CITY OF PONTIAC, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2019

	Special Revenue Funds				
	Youth Recreation	PA-48 Tele- communication Allocation	Community Development Block Grant	Home Buyers Assistance	Senior Activities
<b>Assets</b>					
Cash and investments	\$ 289,877	\$ 57,750	\$ 30,335	\$ 3,638	\$ 1,053,572
Accounts receivable	-	-	-	-	-
Taxes receivable, net	1,601	-	-	-	1,031
Interest receivable	-	-	-	-	3,475
Prepays	51,429	-	-	-	231
<b>Total assets</b>	<b>\$ 342,907</b>	<b>\$ 57,750</b>	<b>\$ 30,335</b>	<b>\$ 3,638</b>	<b>\$ 1,058,309</b>
<b>Liabilities</b>					
Accounts payable	\$ 35,836	\$ -	\$ -	\$ -	\$ 8,933
Accrued wages	22,750	-	-	-	7,132
Unearned revenue	-	-	-	-	-
Due to other governments	10,336	-	-	-	8,623
Deposits payable	-	-	-	-	800
<b>Total liabilities</b>	<b>68,922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,488</b>
<b>Deferred inflows of resources</b>					
Unavailable revenue	1,601	-	-	-	1,031
<b>Fund balances</b>					
Nonspendable	51,429	-	-	-	231
Restricted	220,955	57,750	30,335	3,638	1,031,559
<b>Total fund balances</b>	<b>272,384</b>	<b>57,750</b>	<b>30,335</b>	<b>3,638</b>	<b>1,031,790</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 342,907</b>	<b>\$ 57,750</b>	<b>\$ 30,335</b>	<b>\$ 3,638</b>	<b>\$ 1,058,309</b>



Special Revenue Funds				Capital Projects	
Drug Enforcement Fund	Cable Fund	Building Inspection Fund	MIDC Grant Fund	Capital Improvement	Total
\$ 231,825	\$ 1,168,547	\$ 1,063,268	\$ 501,376	\$ 3,063,333	\$ 7,463,521
-	36,727	-	-	-	36,727
-	-	-	-	3,996	6,628
108	442	516	-	1,218	5,759
-	109	20	-	-	51,789
<hr/>					
\$ 231,933	\$ 1,205,825	\$ 1,063,804	\$ 501,376	\$ 3,068,547	\$ 7,564,424
<hr/>					
\$ 4,493	\$ 956	\$ 139,626	\$ 31,165	\$ 27,366	\$ 248,375
-	4,383	-	3,784	-	38,049
-	-	-	466,427	-	466,427
-	-	-	-	24,240	43,199
-	-	-	-	-	800
<hr/>					
4,493	5,339	139,626	501,376	51,606	796,850
<hr/>					
-	-	-	-	3,996	6,628
<hr/>					
-	109	20	-	-	51,789
227,440	1,200,377	924,158	-	3,012,945	6,709,157
<hr/>					
227,440	1,200,486	924,178	-	3,012,945	6,760,946
<hr/>					
\$ 231,933	\$ 1,205,825	\$ 1,063,804	\$ 501,376	\$ 3,068,547	\$ 7,564,424
<hr/>					

# CITY OF PONTIAC, MICHIGAN

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds				
	Youth Recreation	PA-48 Tele- communication Allocation	Community Development Block Grant	Home Buyers Assistance	Senior Activities
Revenues					
Property taxes and special assessments	\$ 938,180	\$ -	\$ -	\$ -	\$ 326,336
State revenue	-	224,645	-	-	18,360
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Interest and rental revenue	-	-	-	-	37,386
Other revenue	153,460	-	-	-	-
Total revenues	1,091,640	224,645	-	-	382,082
Expenditures					
Current expenditures:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Community and human services	-	-	-	-	348,277
Recreation and culture	987,338	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	987,338	-	-	-	348,277
Revenues over (under) expenditures	104,302	224,645	-	-	33,805
Other financing sources (uses)					
Transfers in	6,331	-	-	-	28,499
Transfers out	-	(225,000)	-	-	-
Total other financing sources (uses)	6,331	(225,000)	-	-	28,499
Net change in fund balances	110,633	(355)	-	-	62,304
Fund balances, beginning of year	161,751	58,105	30,335	3,638	969,486
Fund balances, end of year	\$ 272,384	\$ 57,750	\$ 30,335	\$ 3,638	\$ 1,031,790

--

Special Revenue Funds				Capital Projects	
Drug Enforcement Fund	Cable Fund	Building Inspection Fund	MIDC Grant Fund	Capital Improvement	Total
\$ -	\$ -	\$ -	\$ -	\$ 921,758	\$ 2,186,274
-	-	-	-	73,262	316,267
-	-	111,085	-	-	111,085
41,197	-	-	-	-	41,197
-	-	2,370,973	-	-	2,370,973
1,837	15,189	7,985	-	60,471	122,868
-	151,735	-	129,854	116,744	551,793
<u>43,034</u>	<u>166,924</u>	<u>2,490,043</u>	<u>129,854</u>	<u>1,172,235</u>	<u>5,700,457</u>
-	135,403	-	147,489	-	282,892
47,694	-	2,003,707	-	-	2,051,401
-	-	-	-	-	348,277
-	-	-	-	-	987,338
-	-	-	-	959,377	959,377
<u>47,694</u>	<u>135,403</u>	<u>2,003,707</u>	<u>147,489</u>	<u>959,377</u>	<u>4,629,285</u>
<u>(4,660)</u>	<u>31,521</u>	<u>486,336</u>	<u>(17,635)</u>	<u>212,858</u>	<u>1,071,172</u>
-	2,840	-	17,635	-	55,305
-	-	-	-	-	(225,000)
<u>-</u>	<u>2,840</u>	<u>-</u>	<u>17,635</u>	<u>-</u>	<u>(169,695)</u>
(4,660)	34,361	486,336	-	212,858	901,477
<u>232,100</u>	<u>1,166,125</u>	<u>437,842</u>	<u>-</u>	<u>2,800,087</u>	<u>5,859,469</u>
<u>\$ 227,440</u>	<u>\$ 1,200,486</u>	<u>\$ 924,178</u>	<u>\$ -</u>	<u>\$ 3,012,945</u>	<u>\$ 6,760,946</u>

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Net Position

Internal Service Funds

June 30, 2019

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 2,128,523	\$ 210,453	\$ 400,784	\$ 2,739,760
Accounts receivable	1,112	1,491,455	-	1,492,567
Due from other governments	59,967	39,314	-	99,281
Prepays	54,311	4,741,060	-	4,795,371
<b>Total assets</b>	<b>2,243,913</b>	<b>6,482,282</b>	<b>400,784</b>	<b>9,126,979</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	52,242	4,091,457	-	4,143,699
Accrued liabilities	983,735	143,327	-	1,127,062
Accrued wages	-	1,931	-	1,931
Due to other funds	-	-	-	-
Current portion of compensated absences	-	-	205,198	205,198
<b>Total current liabilities</b>	<b>1,035,977</b>	<b>4,236,715</b>	<b>205,198</b>	<b>5,477,890</b>
Noncurrent liabilities - Compensated absences	-	-	195,586	195,586
<b>Total liabilities</b>	<b>1,035,977</b>	<b>4,236,715</b>	<b>400,784</b>	<b>5,673,476</b>
<b>Net position</b>				
Unrestricted	\$ 1,207,936	\$ 2,245,567	\$ -	\$ 3,453,503

# CITY OF PONTIAC, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2019

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Operating revenues				
Charges for services	\$ 251,438	\$ 4,766,988	\$ -	\$ 5,018,426
Other revenue	-	694,869	-	694,869
Total revenues	251,438	5,461,857	-	5,713,295
Operating expenses				
Insurance	-	8,837,773	-	8,837,773
Workers' compensation expense - net of change in liability	249,885	-	-	249,885
Miscellaneous expense	-	-	4,605	4,605
Total operating expenses	249,885	8,837,773	4,605	9,092,263
Operating income (loss)	1,553	(3,375,916)	(4,605)	(3,378,968)
Nonoperating revenue				
Interest income	26,595	-	4,605	31,200
Income (loss) before transfers	28,148	(3,375,916)	-	(3,347,768)
Transfers in	-	501,424	-	501,424
Change in net position	28,148	(2,874,492)	-	(2,846,344)
Net position, beginning of year	1,179,788	5,120,059	-	6,299,847
Net position, end of year	\$ 1,207,936	\$ 2,245,567	\$ -	\$ 3,453,503

# CITY OF PONTIAC, MICHIGAN

## Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2019

	Self-insurance Workers' Compensation	Insurance	Employee Sick and Vacation	Total
Cash flows from operating activities				
Cash received from interfund services	\$ 314,365	\$ 4,299,015	\$ (4,605)	\$ 4,608,775
Cash payments for goods and services	(352,744)	(5,848,162)	-	(6,200,906)
Cash payments to employees	-	419	(31,448)	(31,029)
Net cash used by operating activities	(38,379)	(1,548,728)	(36,053)	(1,623,160)
Cash flows from noncapital financing activities				
Transfers in	-	501,424	-	501,424
Cash flows from investing activities				
Interest income received	26,595	-	4,605	31,200
Net change in cash and investments	(11,784)	(1,047,304)	(31,448)	(1,090,536)
Cash and investments, beginning of year	2,140,307	1,257,757	432,232	3,830,296
Cash and investments, end of year	<u>\$ 2,128,523</u>	<u>\$ 210,453</u>	<u>\$ 400,784</u>	<u>\$ 2,739,760</u>
Reconciliation of operating income (loss) to net cash used by operating activities				
Operating income (loss)	\$ 1,553	\$ (3,375,916)	\$ (4,605)	\$ (3,378,968)
Adjustments to reconcile operating income (loss) to net cash used by operating activities				
Change in:				
Accounts receivable	62,927	(1,162,842)	-	(1,099,915)
Due from other governments	(59,967)	32,851	-	(27,116)
Interest receivable	33	-	-	33
Prepays	987	(750,062)	-	(749,075)
Accounts payable	28,022	4,056,215	-	4,084,237
Accrued liabilities	(71,934)	(349,393)	-	(421,327)
Accrued wages	-	419	-	419
Compensated absences	-	-	(31,448)	(31,448)
Net cash provided (used) by operating activities	<u>\$ (38,379)</u>	<u>\$ (1,548,728)</u>	<u>\$ (36,053)</u>	<u>\$ (1,623,160)</u>

## CITY OF PONTIAC, MICHIGAN

### Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2019

	District Court- Agency	Current Tax Collection	Fire Insurance	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 60,910	\$ 63,510	\$ 1,502,297	\$ 1,626,717
Due from other governments	-	7,077	-	7,077
<b>Total assets</b>	<u>\$ 60,910</u>	<u>\$ 70,587</u>	<u>\$ 1,502,297</u>	<u>\$ 1,633,794</u>
<b>Liabilities</b>				
Due to other governments	\$ -	\$ 70,587	\$ -	\$ 70,587
Deposits payable	60,910	-	1,502,297	1,563,207
<b>Total liabilities</b>	<u>\$ 60,910</u>	<u>\$ 70,587</u>	<u>\$ 1,502,297</u>	<u>\$ 1,633,794</u>

# CITY OF PONTIAC, MICHIGAN

## Combining Balance Sheet

Component Units

June 30, 2019

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
<b>Assets</b>					
Cash and investments	\$ 932	\$ 263,994	\$ 264,926	\$ 267,231	\$ 532,157
Property taxes receivable - net	790	28,781	29,571	-	29,571
<b>Total assets</b>	<b>\$ 1,722</b>	<b>\$ 292,775</b>	<b>\$ 294,497</b>	<b>\$ 267,231</b>	<b>\$ 561,728</b>
<b>Liabilities</b>					
Due to other governments	\$ 928	\$ 17,003	\$ 17,931	\$ 13	\$ 17,944
Financial guarantee	2,660,562	1,992,745	4,653,307	-	4,653,307
<b>Total liabilities</b>	<b>2,661,490</b>	<b>2,009,748</b>	<b>4,671,238</b>	<b>13</b>	<b>4,671,251</b>
<b>Deferred inflows of resources</b>					
Unavailable revenue	790	28,781	29,571	-	29,571
<b>Fund balances</b>					
Unassigned (deficit)	(2,660,558)	(1,745,754)	(4,406,312)	267,218	(4,139,094)
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,722</b>	<b>\$ 292,775</b>	<b>\$ 294,497</b>	<b>\$ 267,231</b>	<b>\$ 561,728</b>

## CITY OF PONTIAC, MICHIGAN

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
Component Units  
For the Year Ended June 30, 2019

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Fund balances (deficits) for component units	\$ (2,660,558)	\$ (1,745,754)	\$ (4,406,312)	\$ 267,218	\$ (4,139,094)
Amounts reported for <i>component units</i> in the statement of net position are different because:					
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.					
Unavailable property taxes receivable	790	28,781	29,571	-	29,571
Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position.					
	-	511,707	511,707	-	511,707
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	(12,220)	(142,507)	(154,727)	-	(154,727)
Bonds payable	(1,535,000)	(18,255,000)	(19,790,000)	-	(19,790,000)
Net position for component units	<u>\$ (4,206,988)</u>	<u>\$ (19,602,773)</u>	<u>\$ (23,809,761)</u>	<u>\$ 267,218</u>	<u>\$ (23,542,543)</u>

# CITY OF PONTIAC, MICHIGAN

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

Component Units

For the Year Ended June 30, 2019

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Revenues					
Taxes	\$ 12,501	\$ 1,425,230	\$ 1,437,731	\$ 33,896	\$ 1,471,627
State revenue	74,637	122,573	197,210	-	197,210
Charges for services	75,000	-	75,000	-	75,000
Contributions from primary government	217,983	414,841	632,824	-	632,824
Total revenues	380,121	1,962,644	2,342,765	33,896	2,376,661
Expenditures					
Financial guarantee	217,983	414,841	632,824	-	632,824
Debt service:					
Principal	295,000	1,065,000	1,360,000	-	1,360,000
Interest and fiscal charges	85,119	897,643	982,762	-	982,762
Total expenditures	598,102	2,377,484	2,975,586	-	2,975,586
Net change in fund balances	(217,981)	(414,840)	(632,821)	33,896	(598,925)
Fund balances (deficit), beginning of year	(2,442,577)	(1,330,914)	(3,773,491)	233,322	(3,540,169)
Fund balances (deficit), end of year	\$ (2,660,558)	\$ (1,745,754)	\$ (4,406,312)	\$ 267,218	\$ (4,139,094)

# CITY OF PONTIAC, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
Component Units  
June 30, 2019

	Tax Increment Finance Authority			Brownfield Redevelopment Authority	Total
	District 2	District 3	Total		
Net change in fund balance - component units	\$ (217,981)	\$ (414,840)	\$ (632,821)	\$ 33,896	\$ (598,925)
Amounts reported for <i>component units</i> in the statement of activities are different because:					
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	(11)	19,718	19,707	-	19,707
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	295,000	1,065,000	1,360,000	-	1,360,000
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	1,966	7,100	9,066	-	9,066
Change in deferred charge on refunding	-	(42,642)	(42,642)	-	(42,642)
Change in net position of component units	<u>\$ 78,974</u>	<u>\$ 634,336</u>	<u>\$ 713,310</u>	<u>\$ 33,896</u>	<u>\$ 747,206</u>

This page intentionally left blank.

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

December 23, 2019

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, 2019, 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 23, 2019. 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. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

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

#### Purpose of this Report

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

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

## INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

December 23, 2019

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, 2019, and have issued our report thereon dated December 23, 2019. 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 reports thereon have 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 reports 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 September 19, 2019, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 23, 2019.

### 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 August 12, 2019.

### 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.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

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. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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,

The signature is written in a cursive, handwritten style. It appears to read "Lehmann Lohman LLC". The ink is dark, and the signature is fluid and connected.

# CITY OF PONTIAC, MICHIGAN

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

For the June 30, 2019 Audit

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

### **GASB 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 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.

### **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.

## CITY OF PONTIAC, MICHIGAN

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

For the June 30, 2019 Audit

#### GASB 91 ■ Conduit Debt Obligations

*Effective 12/15/2021 (your FY 2022)*

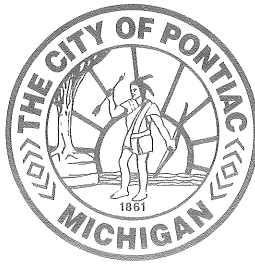
This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more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

■ ■ ■ ■ ■

## CITY OF PONTIAC, MICHIGAN

### Attachment B - Management Representations For the June 30, 2019 Audit

Following are the written representations that we requested from management.



**DR. DEIRDRE WATERMAN**  
**MAYOR**  
**CITY OF PONTIAC**

December 23, 2019

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, 2019, 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 23, 2019:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 19, 2019, 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.
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.

47450 Woodward Avenue • Pontiac, Michigan 48342

Direct: (248) 758-3181 • Appointments: (248) 758-3326 • Fax: (248) 758-3292

E-mail: [DWaterman@pontiac.mi.us](mailto:DWaterman@pontiac.mi.us) • [www.pontiac.mi.us](http://www.pontiac.mi.us)

<https://www.facebook.com/pontiacmayor/>

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. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. 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.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. 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.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. 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.
14. All components of net position and fund balance classifications have been properly reported.
15. 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.
16. 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.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Special items and extraordinary items have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. 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

23. 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.
24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. 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.
26. 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.
27. 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.
28. 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.
29. 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.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. 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.
34. 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.
35. 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.
36. 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.
37. 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

38. With respect to the supplementary information accompanying the financial statements:
- We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - 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.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - 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.

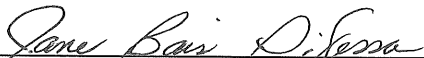
### Required Supplementary Information

39. With respect to the required supplementary information accompanying the financial statements:
- 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.
  - 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.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - 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, Mayor



---

Jane Bais-DiSessa, Deputy Mayor

## CITY OF PONTIAC, MICHIGAN

### Schedule of Adjustments Passed (SOAP)

For the June 30, 2019 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
Self-insurance Worker's Compensation					
Allowance for doubtful accounts	\$ 59,967	\$ -	\$ -	\$ -	\$ (59,967)
Agency fund					
Open bond listing variance	\$ (13,150)	\$ (13,150)	\$ -	\$ -	\$ -