



CITY OF FLINT Department of Finance

Donald J. Williamson
Mayor

Peter Dobrzeniecki
Director of Finance

December 29, 2004

To the Honorable Mayor, Members of City Council, and Citizens of the City of Flint:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement we hereby issue the comprehensive annual financial report of the City of Flint for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Flint (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flint has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Flint's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flint's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Flint's financial statements have been audited by BKR Dupuis & Ryden, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flint for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flint's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flint was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flint's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Flint's MD&A can be found immediately following the report of the independent auditors.

We are pleased to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flint for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004, continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Profile of the Government

The City of Flint, incorporated in 1855, is located in the eastern part of the State of Michigan. The City currently occupies a land area of 32.8 square miles and serves a population of 120,292. The City is empowered to levy a property tax on both real and personal properties located within its boundaries, as well as a 1% income tax for those who live within the City limits (or .5% for those who only work within the City limits).

The City of Flint has operated under the strong mayor – council form of government since November 4, 1975, when the present charter was adopted. Legislative authority is vested in a City Council consisting of nine members elected from each of the nine wards in the City and serving a four-year term. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving resolutions and appointing committees. The Mayor is an elected official who serves as the chief executive officer of the City for a four-year term of office (he may be reelected for additional terms). The Mayor appoints a City Administrator to be the chief administrative officer of the City, overseeing the day-to-day operations of the government. The Mayor also appoints the principal officials responsible for budget, personnel, planning, legal counsel, and administrative services; appointing up to ten principal staff officials who serve at the pleasure of the Mayor. In addition, the Mayor may appoint up to ten executive department heads over such departments as may be necessary to administer the responsibilities of the City for public safety, public works, utilities, parks and recreation, transportation, finance, community development, and environmental protection. The City Council must approve these appointments. The City Council and the Mayor are elected on a non-partisan basis.

On May 22, 2002, the State of Michigan determined that a financial emergency existed in the City of Flint, pursuant to Section 15(1) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act of the State of Michigan. Pursuant to Section 18(1) of the Act the Governor, on July 2, 2002, assigned responsibility for managing the financial emergency to the Local Emergency Financial Assistance Loan Board. On July 8, 2002, the Board appointed an Emergency Financial Manager. The Emergency Financial Manager then became responsible for overseeing all aspects of the City government related to the City's finances, including: 1) analysis of factors and circumstances that contributed to the financial condition and recommendation of steps to be taken to correct the condition, 2) amendment, revision, approval, or disapproval of the budget, including appropriations and

expenditures, 3) administration of all outstanding debt of the local government, 4) making reports to the State as to the progress the City is making in eliminating the deficit, 5) (re)negotiation of labor contracts, 6) appointment and removal of administrative staff, as needed, 7) consolidation of departments and transfer of functions, as needed, 8) entering into agreements with other local governments for the provision of services, and 9) exercising the authority and responsibilities affecting the financial condition of the local government as provided by law. The Emergency Financial Manager and the Administrative Officials created a deficit elimination plan designed to overcome years of deficit spending and issued balanced budgets for fiscal years 2003 and 2004. Three key factors involved in this plan were: 1) a reorganization of City operations, 2) critical management and administrative reforms, and 3) reinventing the operation of the City of Flint. As a result of these reforms, the deficit has been reduced from approximately \$26.3 million to \$7.7 million as of the end of this fiscal year. To eliminate this debt, the City plans to sell fiscal stabilization bonds during fiscal year 2005. Also, as of July 1, 2004, the Emergency Financial Manager returned the control of the City to the Mayor and City Council, although the State of Michigan has not yet officially declared an end to the state of emergency.

The City of Flint provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructures; recreational activities and cultural events; water and sewer services; and sanitation/garbage pickup services. The Board of Hospital Managers has the exclusive authority to manage and operate Hurley Hospital. The Flint Downtown Development Authority Board promotes the rehabilitation of the downtown area. The City of Flint Economic Development Corporation provides financing and development opportunities for businesses located in the City of Flint.

The annual budget serves as the foundation for the City of Flint's financial planning and control. Under the normal governance scenario, as outlined above, all departments and agencies of the City of Flint are required to submit requests for appropriations to the Mayor's appointed Budget Director in March each year. The Budget Director uses these requests as the starting point for developing a proposed budget. The Mayor would then present this proposed budget to the City Council on the first Monday in May. The Council would be required to hold public hearings on the proposed budget and to adopt a final budget, by charter, on the first Monday in June. Due to the provisions of Act 72, these functions have been under the purview of the Emergency Financial Manager. The City's fiscal year ends on June 30. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments or funds, however, would require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each major governmental fund for which an appropriated annual budget has been adopted. The comparison is presented in the required supplementary information subsection of this report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Flint operates.

Local Economy. The City's unemployment rate improved somewhat, from 9.1% in October 2003, to 7.9% in October 2004. The City of Flint's economy is strongly tied to the automobile industry.

Cash management policies and practices. Safety of principal is the foremost objective of the City of Flint. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities. The surplus funds of

the City of Flint were invested in accordance with Act 20 of the Public Acts of 1943, as amended, and the City's Code of Ordinances. These funds were invested in obligations of the U.S. Treasury, certificates of deposit, commercial paper and investment pools. The maturity dates of the investments range from one day to 5-1/2 years, with an average maturity of 273 days. The yield on investments improved during the fiscal year, paying 2.24% as of June 30, 2004.

Risk management. The City of Flint has established a comprehensive Risk Management program in order to protect the assets of the City from the risk of loss. This is accomplished through a combination of risk financing and loss control activities, which are designed to avoid, reduce or transfer various risk exposures. The City utilizes a combination of commercial insurance and self-insurance to finance these exposures. The risk of loss is reduced through the use of various control techniques, such as contract review, safety training and site inspections.

In FY 2002, organizational restructuring resulted in the Workers' Compensation function being transferred to the Risk Management department, which allows for a more coordinated effort to minimize accident-related losses. In addition, in FY 2003 the City of Flint added a Security/Fraud Manager to complement the already-existing efforts undertaken to control fraudulent exposures. Additional information on the City of Flint's risk management activities can be found in Section V.C. of the Notes of the June 30, 2004 Audited Financial Statements.

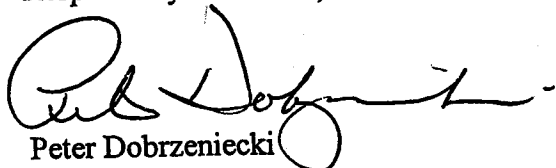
Pension and other post-employment benefits. The City of Flint sponsors a single-employer defined benefit plan for its public safety and non-public safety employees. Each year, an independent actuary engaged by the pension system calculates the amount of the annual contribution that the City of Flint must make to the pension system to ensure that the plan will be able to fully meet its obligations to retired employees. The City of Flint makes monthly contributions to the system in accordance with the contribution rate determined by the independent actuary. As a result of the City of Flint's funding activities, the overall retirement system as of December 31, 2002, was 91.2% funded.

The City of Flint also provides post-retirement health and vision care benefits for retirees and their dependents. As of the end of the current fiscal year, there were approximately 1,739 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Additional information on the City of Flint's Retirement Plan can be found in Section V.C. of the Notes of the June 30, 2004 Audited Financial Statements. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration departments. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the City Council for their support for maintaining the highest standards of professionalism in the management of the City of Flint's finances.

Respectfully submitted,



Peter Dobrzeniecki
Director of Finance