

Notes to Basic Financial Statements

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies

The accounting policies of the City of Flint (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Flint.

A. Reporting entity

The City of Flint is a municipal corporation governed by an elected mayor and a nine member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable although blended component units are legally separate entities, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units:

The Flint Employees Retirement System (FERS) is a defined benefit pension plan that provides retirement benefits to certain City retirees. The FERS was established and governed by City ordinance, with the Board of Trustees comprising of City officials and retirees. The FERS is reported as a Pension Trust Fiduciary Fund.

Discretely presented component units:

The Atwood Stadium Building Authority serves all citizens and is responsible for major capital improvements to Atwood Stadium, a recreational facility. The City appoints a majority of the governing board and all surplus funds existing at the termination of the Authority vest to the City. The Authority is presented as a governmental activity.

The Flint Downtown Development Authority (Authority) was created under State law to promote and rehabilitate the downtown area. The Authority sponsors downtown events and manages parking facilities. State law provides for a specific tax levy for the operations of the Authority. The City appoints the Board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City. The Authority is presented as a governmental activity.

The City of Flint Economic Development Corporation (Corporation) was created under State law to provide financing and development opportunities for businesses located within the City. The Corporation provides loans to start up or expanding businesses and manages rental property that lease space to commercial and light industrial manufacturing companies. Surplus funds existing at the termination of the Corporation vest to the City. The Authority is presented as a governmental activity.

Complete financial statements for the following individual component units may be obtained at the entity's administrative offices. Complete financial statements for Atwood Stadium Building Authority are not available.

Flint Downtown Development Authority
Suite 206
412 S. Saginaw Street
Flint, Michigan 48502

Flint Economic Development Corporation
1101 S. Saginaw Street
Flint, Michigan 48502

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I. Summary of significant accounting policies - (continued)

A. Reporting entity - (continued)

Hurley Medical Center Enterprise Fund:

The Hurley Medical Center Enterprise Fund is a separate administrative unit of the City of Flint. The Medical Center provides inpatient, outpatient and emergency care services in Genesee and surrounding counties.

The Enterprise Fund financial statements present the Medical Center and its wholly owned subsidiary Hurley Health Services, Inc. on a consolidated basis.

The Medical Center is the sole member of Hurley Health Services, Inc., (HHS) a municipal support organization organized on a non-profit, non-stock membership basis. HHS on a consolidated basis, is comprised of two non-profit entities (HHS and H-Corporation of Mid-Michigan) and one "for profit" corporation (Hurley Practice Management Services). HHS began operations January 1, 1998.

The Medical Center and HHS are exempt from income taxes except for HHS's subsidiary, Hurley Practice Management Services. A provision for income taxes (at statutory rates) has been provided for in the consolidated financial statements related to this entity's transactions. Hurley Practice Management Services (HPMS), adopted Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. Income tax expense is the current tax payable or refund for the period plus or minus the net change in the deferred tax assets and liabilities. There are no deferred tax assets or tax liabilities at June 30, 2005 as the tax basis of the assets and the liabilities reported in the profit corporation are not materially different from the carrying value.

Joint Ventures:

During 1998 the City entered into a joint venture with Mt. Morris Charter Township to create the Flint Area Enterprise Community. The Flint Area Enterprise Community was created as a Michigan non-profit corporation under the Urban Cooperative Act to facilitate economic and community development in a region that includes portions of both municipalities.

Summary of financial information for the fiscal year ended June 30, 2005, the date of its latest financial report is as follows:

Total assets	\$2,177,899
Total liabilities	20,824
Net assets	2,157,075
Total revenues	2,287,184
Total expenses	251,665
Net income	2,035,519

City of Flint, Michigan
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I. Summary of significant accounting policies - (continued)

A. Reporting entity - (continued)

Hurley Medical Center Enterprise Fund: - (continued)

Joint Ventures: - (continued)

The Hurley Medical Center Enterprise Fund (Medical Center) participates in six privately held joint ventures, Greater Flint Area Hospital Imaging Center, Inc. (GFAHIC), Flint Health Systems Imaging Center, Inc., (FHSIC), HGH, Inc., (HealthPlus Partners), Hurley PHO of Mid-Michigan, Michigan Lithotripsy Network, and Genesys Hurley Cancer Institute. Each corporate joint venture is recorded in the financial statements in accordance with Accounting Principles Board Statement 18 on the equity method of accounting.

GFAHIC and FHSIC provide magnetic resonance imaging (MRI) services to the Greater Flint and Genesee County community. The ownership of both Corporations is allocated between Hurley Medical Center, Genesys Regional Medical Center, and McLaren Regional Medical Center. The joint venture provides that each participant shares in the annual earnings/loss of the Corporations. The net investment by the Medical Center at June 30, 2005 was \$3,713,657. A total of \$1,800,000 was distributed to the Medical Center during the year ended June 30, 2005.

HGH, Inc. is a joint venture among Hurley Medical Center, HealthPlus of Michigan, Inc., Genesys Regional Medical Center and Memorial Health Care Center. The venture was established during 1995 to provide a methodology to enroll Medicaid patients in the statewide managed care initiative for Medicaid. The Medical Center's net investment has a negative investment (obligation) of \$(702,570) at June 30, 2005. During 2005, Memorial Health Care Center withdrew from the joint venture and the three remaining entities contributed capital of \$1,742,000 to the venture. The arrangement now provides that the three entities will share in the excess revenues or expenditures of the joint venture.

Hurley PHO of Mid-Michigan is a joint venture between Hurley Medical Center and its medical staff. The venture was established during 1997 to provide vertically integrated continuous care which will facilitate the Medical Center participating in managed care contracts in the future. The Medical Center's net investment at June 30, 2005 was \$395,991. The arrangement provides that the Medical Center will be allocated 50 percent of the excess revenues or expenditures of the joint venture.

Michigan Lithotripsy Network is a joint venture between Hurley Medical Center and six other hospitals. The venture was established during 1999 to provide a mobile lithotripsy unit to be utilized by the participating hospitals. The Medical Center's net investment at June 30, 2005 was \$31,061. The arrangement provides that the seven hospitals will share equally in the excess revenues or expenditures of the joint venture.

Genesys Hurley Cancer Institute is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001, to provide outpatient oncology services, including radiation oncology. The Medical Center's net investment at June 30, 2005 was \$1,928,130. The arrangement provides that the two entities will share equally in the excess revenues or expenditures of the joint venture.

City of Flint, Michigan
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I. Summary of significant accounting policies - (continued)

A. Reporting entity – (continued)

Hurley Medical Center Enterprise Fund: - (continued)

Joint Ventures: - (continued)

The financial statements of each entity are available at the Hurley Medical Center's administrative office.

HPMS has a 50 percent ownership in Hurley/Binson's Medical Equipment, Inc. The equity method of accounting was adopted for this investment, which was \$1,456,479 at June 30, 2005. Investment loss recognized in the year ended June 30, 2005 using the equity method was \$178,310.

Flint Housing Commission:

Flint Housing Commission (Commission) is not part of the City of Flint and is excluded from the accompanying financial statements for the reasons stated. The following disclosures are included to meet state of Michigan reporting requirements.

- * City does not guarantee the Commission's debts
- * City does not approve the operating budget
- * Governing board is essentially autonomous
- * City has no obligations to fund deficits

The Flint Housing Commission was created by the City of Flint in accordance with the laws of the State of Michigan. Its main purpose is to administer activities that provide sanitary housing facilities for low-income families and the elimination of housing conditions that are detrimental to public peace, health, safety, and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by state regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Summary financial information for the fiscal year ended June 30, 2004, the date of its latest audited financial report, is as follows:

Total Assets	\$27,439,330
Total Liabilities	2,340,549
Retained Earnings	25,098,781
Total Revenues	10,381,305
Total Operating Expenditures	11,796,771
Non Operating Revenue	8,503,404
Net Loss	(1,415,466)

City of Flint, Michigan
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I. Summary of significant accounting policies - (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, 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 revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 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 revenues are reported instead as *general revenues*.

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.

C. 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 and fiduciary fund financial statements. Revenues are 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 revenues 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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I. Summary of significant accounting policies - (continued)

C. Measurement focus, basis of accounting, and financial statement presentation - (continued)

The government reports the following major governmental fund:

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

The government reports the following major proprietary funds:

The Hurley Medical Center Enterprise Fund is used to account for the financial operations of Hurley Hospital. The Hospital is owned by the City and is managed by an eleven member board of managers that are appointed by the mayor with the approval of City Council

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection systems and the sewer treatment plant.

Additionally, the government reports the following fund types:

Internal service funds account for data processing, self insurance, fleet, and fringe benefits services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Pension Trust funds account for the activities of the five different funds utilized to pay retirement and health care benefits for City retirees. These funds accumulate resources for pension and health care benefits financed by both employer and employee contributions.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governments.

Pension Trusts and Agency funds are reported as fiduciary funds and are not included in the government wide Statement of Net Assets and Statement of Activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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I. Summary of significant accounting policies - (continued)

C. Measurement focus, basis of accounting, and financial statement presentation - (continued)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Hurley Medical Center enterprise fund, the Water and Sewer enterprise funds, other enterprise funds, and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Cash and cash equivalents

The City's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Pooled cash and investments:

Cash resources of certain individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. Investments in the Pooled Cash and Investments Account consist primarily of certificates of deposit with a maturity date greater than three months from the date acquired by the City, top grade commercial paper and government securities, and mutual funds, and are carried at fair market value.

At June 30, 2005, some funds have overdrawn their share of the pooled cash and investments. Fund overdrafts of pooled cash and investments are reported as an interfund liability of that fund. Management has selected the following fund to report the interfund receivable; Sewage Disposal Enterprise Fund. Accordingly, this fund's pooled cash and investment balance, as reported on the financial statement, have been decreased by the amounts receivable from the other City funds with an overdraft.

Interest income earned as a result of pooling cash and investments is distributed to the participating funds monthly utilizing a formula based on the average daily balance of each fund's share of the total pooled cash and investments. Funds which have overdrawn their share of pooled cash and investments are charged interest costs.

For purposes of the statement of cash flows, pooled cash and investments have been considered as cash and cash equivalents.

City of Flint, Michigan
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I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity - (continued)

3. Investments:

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

4. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles.

5. Inventories and prepaid items

Inventories in the Enterprise and Internal Service Funds are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are valued at cost and are recorded as expenditures when consumed rather than when purchased.

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

6. Restricted assets

These assets are restricted through bond or grant agreements, or represent donated assets whose disposition is specified by the donor.

Restricted assets which are recorded in the Hurley Medical Center Enterprise Fund consist of:

- Assets set aside by the Board of Managers for identified purposes, and over which the Board retained control, and may at its discretion subsequently use for other purposes.
- Proceeds of debt issues and funds of the Center deposited with a trustee and limited to use in accordance with the requirements of an indenture.
- Assets restricted by outside donors.

Restricted assets recorded in the Water Supply Enterprise fund consists of amounts set aside for equipment replacement as required by the Drinking Water Revolving Fund Revenue Bonds.

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I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity - (continued)

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and 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 estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal years ended June 30, 2002 and forward. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City has five years to retroactively determine costs and accumulated depreciation for infrastructure assets acquired prior to July 1, 2001 and record those assets on the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	5-50
Land improvements	10-50
Public domain infrastructure	25-50
System infrastructure	30
Equipment	5-20

8. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees accumulate sick leave credit bi-weekly based on the various bargaining unit agreements. Sick leave may accumulate indefinitely. Upon retirement or death, the first 480 hours of accrued sick leave is paid in full at the employee's current pay rate. The next 480 hours are forfeited by the employee, except for certain police employees who are paid for these hours at half the employee's current rate. All accrued hours in excess of 960 are paid at half the employee's current rate. Employees earn annual vacation leave bi-weekly at various rates based on bargaining unit and seniority. Each bargaining unit and seniority level determines the cap on the number of hours that can be accrued for annual vacation leave. Vacation leave is paid at the employee's current pay rate when used or upon retirement. All 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 if they have matured, for example, as a result of employee resignations and retirements. In prior years, the governmental fund that has liquidated compensated absences has typically been the general fund.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity - (continued)

9. Long-term obligations and interest payments

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations and reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest expense incurred during capital asset construction phases is capitalized. During the year ended June 30, 2005, interest of \$740,158 was capitalized in the Water Enterprise Fund.

10. Fund equity

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

11. Property tax

The City's property tax is levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property. Assessed values are established by the City Assessor at 50% of estimated market value.

The City is permitted by the City Charter to levy up to 10 mills on taxable valuation assessments. For the year ended June 30, 2005, the City levied the full 10 mills allowed. The levy consists of 7.5 mills for operating costs and 2.5 mills restricted for public improvement. The City levies 3.0 mills for garbage collection in accordance with State law.

A special voted assessment of .5 mills is levied for both paramedic services and dedicated funds for the improvement and maintenance of City parks, forestry and recreation services. The park millage is a ten year millage for the period 1997-2006. In addition, the City was authorized by the electorate to levy an additional property tax at the rate of 2.0 mills with all revenue received to be used to fund a city-wide neighborhood police program (a five year millage 2001-2005). Because these additional levies were approved by a special vote, they do not fall under the 10 mill charter limitation.

City of Flint, Michigan
Notes to Basic Financial Statements
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I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity - (continued)

11. Property tax

Taxes on the operating, public improvement, garbage collection, parks, and neighborhood police levies are billed July 1 and may be paid in three (3) equal installments due by July 31, October 31, and February 28, following the levy date. Taxes on the paramedic service levy are billed on December 1 and due in one installment by February 28. Property tax receivables are recorded as a receivable and offsetting deferred revenue when levied and due. Property taxes are recognized as revenues when collected or when considered measurable and available. The City considers property taxes as available if they are collected within 60 days after year end.

12. Hurley Medical Center - cost based reimbursement:

Patient accounts receivable at June 30, 2005, and revenues for the year then ended, include estimated amounts due from various third-party payors which are computed in accordance with their respective reimbursement formulas.

Adjustments made by third-party payors upon settlement of prior-year cost reports are included in the statement of revenues and expenses in the year such adjustments become known. As a result of such adjustments, net patient service revenues were increased by approximately \$710,000 in 2005.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$26,100,000 for 2005.

13. Hurley Medical Center – revenues and expenses accounting policy

Net patient service revenue:

Net patient service revenue is reported at the estimated net realized amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 75% of the Medical Center's revenues are based on participation in the Blue Cross Blue Shield, Medicare, and Medicaid programs for the year ended 2005.

Charity care:

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Estimated malpractice costs:

The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimate for claims incurred but not reported is based on an actuarial determination.

City of Flint, Michigan
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II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds and notes payable	\$12,909,658
Capital leases payable	154,025
Compensated absences	<u>8,142,796</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$21,206,479</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 11,273,094
Depreciation expense	<u>(19,207,587)</u>
Net adjustment to decrease <i>net changes in fund balances -total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (7,934,493)</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The City followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first meeting in April, the Mayor submitted to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget included proposed expenditures and the means of financing them for the General and Special Revenue Funds. (These funds are required to have budgets per Michigan law).
2. Public hearings were conducted at city hall to obtain taxpayer comments.

City of Flint, Michigan
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III. Stewardship, compliance, and accountability - (continued)

A. Budgetary information - (continued)

3. At the first City Council meeting in June, the budget was legally enacted at a cost center level (department) through the passage of a resolution in accordance with State law.

Informational summaries of projected revenues and expenditures/expenses were provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

4. The Mayor, or his designee, was authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any budgetary level (as indicated above) were to be approved by the City Council.
5. Formal budgetary integration was employed as a management control device during the year for all budgetary funds. Also, all budgets were adopted on a basis consistent with generally accepted accounting principles. No budget was adopted for the State Grants Special Revenue Fund as the fund only holds assets and liabilities.
6. Budget appropriations lapse at year end, except for certain projects which are appropriated on a project length basis.
7. The original budget was amended during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

The following individual cost centers incurred expenditures in excess of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Amended Budget</u>
General Fund:			
Legislation – City Council	\$ 898,379	\$ 915,521	\$ 17,142
Federal grants:			
Principal	-	126,000	126,000
Interest and fiscal charges	-	23,906	23,906
Neighborhood Policing:			
Police department	3,235,433	3,492,365	256,932
EDA Revolving Loan:			
Community development and enrichment	-	26,527	26,527

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IV. Detailed notes on all funds

A. Pooled cash and investments, deposits, and investments

The City maintains a cash and investment pool that is available for use by all funds except the ICMA 401 Retirement Pension Trust Fund. Each fund types' portion of this pool is displayed on the combined balance sheet as "Pooled Cash and Investments."

The pooled cash and investments account at June 30, 2005 is comprised of the following:

Cash deposits	\$ 1,160,512
Investments	<u>61,368,473</u>
	<u><u>\$62,528,985</u></u>

A summary of the amount of equity in the pooled cash and investments account, or the amount due to the Sewage Disposal Enterprise Fund at June 30, 2005, follows:

<u>Fund</u>	<u>Pooled Cash and Investments</u>	<u>(Due to)</u>
General Fund	\$ -	\$(7,279,153)
Special Revenue Funds:		
Major Streets Fund	9,409,163	-
Local Streets Fund	2,627,505	-
Federal Grants Fund	-	(1,059,070)
Neighborhood Policing Fund	3,942	-
State Act 251 - Forfeitures Fund	705,914	-
EDA Revolving Loan Fund	10,682	-
Atwood Stadium Fund	5,657	-
Local Law Enforcement Grant	235,719	-
Parks and Recreation	571,892	-
City Park Fund	6,999	-
Longway Fund	7,809	-
Building Department Fund	-	(38,087)
Garbage Fund	103,472	-
Code Abatement Fund	295,698	-
Debt Service Funds:		
Windmill Place Debt Service Fund	5,943	-
Buick City Debt Service Fund	635	-
Capital Projects Funds:		
Public Improvement Fund	1,178,687	-
Enterprise Funds:		
Water Supply Division Fund	6,842,506	-
Sewage Disposal Division Fund	42,191,811	-
Golf Course Fund	53,160	-
Mid-City Parking System Fund	-	-

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

A. Pooled cash and investments, deposits, and investments – (continued)

<u>Fund</u>	<u>Pooled Cash and Investments</u>	<u>(Due to)</u>
Internal Service Funds:		
Data Processing Fund	-	(547,596)
Fringe Benefits Fund	209,757	-
Self-Insurance Fund	3,576,104	-
Central Maintenance	291,230	-
Pension Trust Funds:		
Charter Retirement Fund	-	(2,348)
Flint Employees' Retirement System Fund	-	(156,076)
Retiree Health Care Fund	-	(94,120)
Agency Funds:		
Miscellaneous Agency Fund	3,371,150	-
	<u>71,705,435</u>	<u>\$9,176,450</u>
Total pooled cash and investments	<u>\$62,528,985</u>	

B. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City 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 mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund and retiree health care fund 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 four banks 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 bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's investment policy authorizes the City and its component units to invest in obligations of the U.S. Treasury and obligation of U.S. agencies, where the principal and interest are fully guaranteed by the United States, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations secured by obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

The City's investment policy further requires that investments held in the pooled investment fund be limited by investment type and financial institution. These investment limitations do not affect the investments of the Pension Benefit Trust or the City's component units. The City's pooled cash investments are limited as follows:

- Negotiable certificates of deposit cannot exceed 25% of investment holdings
- Commercial paper cannot exceed 50% of investment holdings
- Bankers acceptances cannot exceed 10% of investment holdings
- Mutual funds cannot exceed 15% of the investment holdings
- Banker acceptances cannot exceed a maturity of 270 days
- Bankers acceptances in one financial institution cannot exceed 10% of investment holdings
- Commercial paper holdings of any one corporation cannot exceed 10% of investment holdings

The City was in compliance with all aspects of its investment policy at June 30, 2005.

The Hurley Medical Center Enterprise Fund's investing is controlled by Hurley Medical Center's Chief Financial Officer. Hurley has adopted the above City investment policy as its policy for investment of unrestricted funds. Hurley also must adhere to donor restrictions on the investing of any restricted funds received.

The City deals only with qualified banks and primary investment firms that adhere to the specific guidelines established by industry practice for repurchase agreements. Guidelines indicate that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. On no occasion during the year did the market value of the underlying securities for repurchase agreements fall below this required level.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$36,922,721 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of 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. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

Custodial credit risk of investments: - (continued)

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. gov or agency bond or notes	\$18,312,299	Counterparty's trust dept.
Repurchase Agreement	28,556,911	Counterparty's trust dept.
Commercial paper	<u>1,000,716</u>	Counterparty
	<u>\$47,869,926</u>	

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. The City's investment policy for investment of general City monies that limits investments in securities with maturities greater than five years to 15% of the balance available to invest. Hurley Medical Center's investment policy indicates that no investment shall have, at time of purchase, an average life of more than five years and investments other than mortgage backed securities may not have a maturity of more than 10 years. As of June 30, 2005, the following securities were subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u> <u>(amounts in thousands)</u>	<u>Weighted</u> <u>Average</u> <u>Maturity (Years)</u>
Repurchase Agreement	\$ 18,306	0.5
U.S. government agency bonds	169,248	2.6
U.S. government CMO's	21,843	12.9
Commercial paper	11,876	0.2
Corporate bonds	25,413	5.2
U.S. Government bonds	32,330	2.6
Mutual fund	1,009	0.8
Mortgage backed securities	<u>60,595</u>	38.0
	<u>\$340,620</u>	

Credit risk:

Credit risk is the risk that the government will not be able to recover the value of its securities. The City follows state law which limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices for general City funds. The pension funds are allowed to invest in longer maturity corporate bonds in accordance with state law.

As of June 30, 2005, the credit quality ratings of debt securities not explicitly guaranteed by the U.S. Government are as follows:

<u>Investment Type</u>	<u>Fair Value</u> <u>(amounts in thousands)</u>	<u>Rating</u>	<u>Rating</u> <u>Organization</u>
U.S. government agency bonds	\$165,214	AAA	Standard and Poors
U.S. government CMO's	3,689	AAA	Standard and Poors
	18,154	Not rated	N/A

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

Credit risk: - (continued)

<u>Investment Type</u>	<u>Fair Value</u> <u>(amounts in thousands)</u>	<u>Rating</u>	<u>Rating</u> <u>Organization</u>
Commercial paper	5,788	P1	Moody's
	5,008	P2	Moody's
	1,000	A1+	Standard and Poors
Repurchase Agreement	18,306	Not rated	N/A
Bank investment pool	49,692	Not rated	N/A
Mutual fund	1,009	Not rated	N/A
Mortgage backed securities	60,595	Not rated	N/A
Corporate bonds	10,345	A1	Standard and Poors
	7,066	A2	
	419	A3	
	7,056	AAA	
	377	Bca2	
	150	Baa3	
	<u>\$353,868</u>		

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. The pension system restricts the amount of investments in foreign currency – denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

<u>Security</u>	<u>Foreign Currency</u>	<u>Fair Value</u> <u>(amounts in thousands)</u>
Foreign stocks	Chinese	\$ 342
	Canadian Dollar	2,047
	European Euro	3,369
	Japanese Yen	3,558
	Mexican	1,564
	Netherlands	3,119
	Sweden	284
	Swiss Franc	673
	British Pound	<u>2,010</u>
		<u>\$ 16,966</u>

Securities lending agreement:

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

Securities lending agreement: - (continued)

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

The System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral of approximately \$99,700,000 received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. In addition, the System received noncash collateral of approximately \$3,600,000. The average duration of this investment pool as of June 30, 2005 was 100 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as June 30, 2005 was approximately \$100,900,000 and \$103,300,000, respectively.

Before the lending transactions and the investment of the cash collateral, the plan's aggregate investments are as shown in the following table. These investments are reported at fair value. Except for mutual funds, which are not subject to custodial credit risk, investments are held by the system's agent (which is not affiliated with or related to the investment brokers) in the system's name. (Amounts are in thousands.)

<u>Investment Type</u>	<u>Fair Value</u>
Mutual funds	\$ 38,359
Partnerships	7,717
Short-term investment funds	59,525
U.S. government and agency securities	123,139
Domestic corp. fixed-income securities	108,864
Domestic equities	426,276
International equities	<u>12,991</u>
	<u>\$776,871</u>

The following represents the balances relating to the securities lending transactions as of June 30, 2005. (Amounts are in thousands; investments are reported at fair value.)

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Collateral Received</u>	<u>Collateral Investment Value</u>	<u>Type of Collateral</u>
U.S. government and agency securities	\$ 33,272	\$ 33,996	\$30,585 3,411	Cash Gov. securities
Domestic corporate fixed-income securities	2,074	2,131	2,131	Cash
Domestic equities	65,553	67,239	190	Gov. securities
International equities	-	-	<u>67,049</u>	Cash
	<u>\$100,899</u>	<u>\$103,366</u>	<u>\$103,366</u>	

Collateral is invested in investment pools and is not exposed to custodial credit risk.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

C. Receivables

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

Governmental activities and fiduciary funds:

	<u>General</u>	Nonmajor, Internal Service, and Other <u>Funds</u>	<u>Total</u>
Receivables:			
Taxes	\$ 2,825,671	\$ 6,193,167	\$ 9,018,838
Accounts	6,736,124	225,392	6,961,516
Intergovernmental	6,325,875	5,558,018	11,883,893
Interest and dividends	-	1,540,843	1,540,843
Notes and leases	-	6,077,743	6,077,743
	<hr/>	<hr/>	<hr/>
Gross receivables	15,887,670	19,595,163	35,482,833
Less: allowance for uncollectibles	<u>(3,841,694)</u>	<u>(4,219,729)</u>	<u>(8,061,423)</u>
Net total receivables	<u>\$12,045,976</u>	<u>\$15,375,434</u>	<u>\$ 27,421,410</u>

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable (general fund)	\$ 1,951,312	\$ -	\$1,951,312
Delinquent property taxes receivable	1,005,809	-	1,005,809
Long-term other receivables	2,377	-	2,377
Long-term notes receivable	518,278	-	518,278
Long-term advance to component unit	767,837	-	767,837
Grant receipts prior to meeting all eligibility requirements	<hr/>	<hr/>	<hr/>
	-	652,027	652,027
Total deferred/unearned revenue for governmental funds	<u>\$4,245,613</u>	<u>\$652,027</u>	<u>\$4,897,640</u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

C. Receivables - (continued)

Business type activities:

	<u>Hurley Medical Center</u>	<u>Water Supply</u>	<u>Sewage Disposal</u>	<u>Total</u>
Receivables:				
Interest - restricted	\$ 211,160	\$ -	\$ -	\$ 211,160
Accounts	100,447,329	10,968,439	5,410,272	116,826,040
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	100,658,489	10,968,439	5,410,272	117,037,200
Less: allowance for uncollectibles	(26,100,000)	(3,196,671)	(520,776)	(29,817,447)
	<hr/>	<hr/>	<hr/>	<hr/>
Net total receivables	<u>\$ 74,558,489</u>	<u>\$ 7,771,768</u>	<u>\$4,889,496</u>	<u>\$ 87,219,753</u>

D. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers*</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$11,620,729	\$ -	\$ -	\$2,172,178	\$13,792,907
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, not being depreciated	11,620,729	-	-	2,172,178	13,792,907
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated:					
Buildings	17,104,004	78,689	-	2,504,863	19,687,556
Improvements other than buildings	8,663,939	493,329	6,197	70,021	9,221,092
Machinery and equipment	33,113,994	3,165,281	7,395,764	111,152	28,994,663
Infrastructure	292,593,644	6,285,597	249,000	-	298,630,241
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	351,475,581	10,022,896	7,650,961	2,686,036	356,533,552
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:					
Buildings	10,188,485	425,815	-	2,504,863	13,119,163
Improvements other than buildings	3,501,302	392,255	6,197	65,911	3,953,271
Machinery and equipment	26,597,485	1,711,514	7,394,549	111,154	21,025,604
Infrastructure	175,689,313	16,678,003	249,000	-	192,118,316
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	215,976,585	19,207,587	7,649,746	2,681,928	230,216,354
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	<u>135,498,996</u>	<u>(9,184,691)</u>	<u>(1,215)</u>	<u>4,108</u>	<u>126,317,198</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	<u>\$147,119,725</u>	<u>\$ (9,184,691)</u>	<u>\$ (1,215)</u>	<u>\$2,176,286</u>	<u>\$140,110,105</u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

Primary Government – (continued)

* On June 30, 2005, the parking fund proprietary fund was closed and will now be accounted for in the general fund. The parking fund capital assets were purchased by the general fund at their current value. They are shown in the above footnotes as transfers.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 7,472,367	\$ 27,883	\$ 2,172,178	\$ 5,328,072
Construction in progress	10,352,816	18,784,534	7,872,071	21,265,279
Total capital assets, not being depreciated	<u>17,825,183</u>	<u>18,812,417</u>	<u>10,044,249</u>	<u>26,593,351</u>
Capital assets, being depreciated:				
Buildings and system	173,953,195	1,401,839	2,576,641	172,778,393
Improvements other than buildings	9,896,829	50,000	70,021	9,876,808
Machinery and equipment	312,262,492	10,765,630	5,068,434	317,959,688
Total capital assets, being depreciated	<u>496,112,516</u>	<u>12,217,469</u>	<u>7,715,096</u>	<u>500,614,889</u>
Less accumulated depreciation for:				
Buildings and system	109,006,050	6,845,107	2,566,879	113,284,278
Improvements other than buildings	3,098,328	361,063	65,913	3,393,478
Machinery and equipment	195,776,328	13,605,586	4,915,501	204,466,413
Total accumulated depreciation	<u>307,880,706</u>	<u>20,811,756</u>	<u>7,548,293</u>	<u>321,144,169</u>
Total capital assets, being depreciated, net	<u>188,231,810</u>	<u>(8,594,287)</u>	<u>166,803</u>	<u>179,470,720</u>
Business-type activities capital assets, net	<u>\$206,056,993</u>	<u>\$10,218,130</u>	<u>\$10,211,052</u>	<u>\$206,064,071</u>

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

Governmental activities:

Current:

Legislative	\$ 1,294
Judicial	10,822
General government	875,111
Police	179,167
Fire	667,509
Transportation	16,690,966
Public works	37,176
Parks and recreation	740,422
Community enrichment and development	<u>5,120</u>

Total depreciation expense - governmental activities \$19,207,587

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

Primary Government – (continued)

Business-type activities:

Hospital	\$10,405,858
Water	5,296,429
Sewer - depreciation	4,737,766
Mid-City Parking	1,472
Golf	<u>370,231</u>

Total depreciation expense – Business-type activities	<u><u>\$20,811,756</u></u>
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Construction commitments:

The government has active construction projects as of June 30, 2005. The projects include water plant improvements, street construction in areas with newly developed housing, widening and construction of existing streets and bridges, and enhancement of park facilities. At year end the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitment</u>
Water plant improvements	\$11,360,417	\$14,070,836
Road and bridge construction	-	684,067
Parks facilities	<u>1,765,519</u>	<u>2,037,770</u>
Total	<u><u>\$13,125,936</u></u>	<u><u>\$16,792,673</u></u>

The commitment for residential street construction is being financed by state grants and State Act 51 revenues. The commitment for road and bridge expansion is being financed entirely from grants from the Federal Highway Administration. The commitment for water plant facilities is being financed by revenue bonds secured by water revenues. Parks construction commitments will be financed from grants, property taxes, and general revenues.

Discretely presented component units capital asset activity:

Activity for the Flint Downtown Development Authority for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Office furniture and equipment	\$ 47,186	\$ -	\$ -	\$ 47,186
Less accumulated depreciation for:				
Office furniture and equipment	<u>(44,737)</u>	<u>(1,539)</u>	<u>-</u>	<u>(46,276)</u>
Governmental activities capital total capital assets, net of depreciation	<u>2,449</u>	<u>(1,539)</u>	<u>-</u>	<u>910</u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

Discretely presented component units capital asset activity: - (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	5,498,512	-	-	5,498,512
Capital assets, being depreciated:				
Buildings	235,337	24,914	-	260,251
Land improvements	1,457,327	-	-	1,457,327
Leasehold improvements	5,519,160	-	-	5,519,160
Totals, capital assets being depreciated	7,211,824	24,914	-	7,236,738
Less accumulated depreciation for:				
Buildings	(202,345)	(15,100)	-	(217,445)
Land improvements	(1,352,326)	(30,000)	-	(1,382,326)
Leasehold improvements	(4,754,816)	(281,534)	-	(5,036,350)
Total accumulated depreciation	(6,309,487)	(326,634)	-	(6,636,121)
Total business-type activities, total capital assets, net of depreciation	6,400,849	(301,720)	-	6,099,129
Capital assets – net	\$6,403,298	\$ (303,259)	\$ -0-	\$6,100,039

Activity for the Flint Economic Development Corporation for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 93,860	\$ -	\$ -	\$ 93,860
Capital assets, being depreciated:				
Buildings	514,782	-	-	514,782
Building improvements	680,385	6,191	-	686,576
Machinery and equipment	17,046	-	-	17,046
Totals, capital assets being depreciated	1,212,213	6,191	-	1,218,404
Less accumulated depreciation for:				
Buildings	389,690	27,798	-	417,488
Building improvements	229,200	42,360	-	271,560
Machinery and equipment	16,873	174	-	17,047
Total accumulated depreciation	635,763	70,332	-	706,095
Total capital assets, being depreciated, net	576,450	(64,141)	-	512,309
Capital assets, net	\$ 670,310	\$ (64,141)	\$ -0-	\$ 606,169

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Enterprise	General	\$7,279,153
	Special Revenue:	
	Federal grants	1,779,030
	Building Fund	38,087
	Internal Service Funds:	
	Data Processing	547,596
	Pension Trust Funds:	
	Charter Retirement	2,348
	Flint Employee's Retirement System	156,076
	Retiree Health Care	<u>94,120</u>
		<u>\$9,896,410</u>

The interfund receivables in the Sewer Enterprise Fund were created through negative pooled cash in other funds and monies loaned from operating purposes.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government:		
State Grant Special Revenue Fund	Component Unit – DDA	\$ 767,837
Miscellaneous Agency Fund	Component Unit – Atwood Stadium	7,108
Component Unit – EDC	Miscellaneous – EDC	<u>281,953</u>
		<u>\$1,056,898</u>

	<u>Transfer In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Proprietary Fund</u>	<u>Internal Service Funds</u>	
Transfer out:					
General fund	\$ -	\$2,279,498	\$736,405	\$ -	\$3,015,903
Nonmajor governmental funds	-	1,435,127	-	218,708	1,653,835
Nonmajor proprietary funds	986,584	-	-	-	986,584
Total transfers out	<u>\$986,584</u>	<u>\$3,714,625</u>	<u>\$736,405</u>	<u>\$218,708</u>	<u>\$5,656,322</u>

Transfers between funds were primarily for operating purposes. Other transfers were made to cover operating deficits or close funds.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

F. Capital and operating leases

The City has entered into agreements for the lease of automobiles, water treatment equipment, office equipment, construction equipment, fire equipment, and a fire station. The terms of each agreement provide options to purchase the fixed assets at any time during the lease terms, which range from three to five years. All of the leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee. As such, \$5,258,801 has been capitalized as equipment.

The following is a schedule of the future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments as of June 30, 2005:

2006	\$2,204,188
2007	2,029,590
2008	1,500,568
2009	<u>75,544</u>
Total future minimum payments	5,809,890
Less amount representing interest	<u>(379,719)</u>
Long-term obligation under capital leases	<u><u>\$5,430,171</u></u>

Also, the City and Hurley Medical Center lease office space and equipment under operating leases. Certain office space operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. The following is a schedule, by year, of future minimum rental payments required under noncancelable operating leases as of June 30, 2005:

2006	\$ 2,621,834
2007	2,496,874
2008	2,244,590
2009	1,945,375
2010	1,590,873
2011 and after	<u>3,698,230</u>
Total minimum payment required	<u><u>\$14,597,776</u></u>

Rental expense for all operating leases for the year ended June 30, 2005, was \$5,323,363.

G. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the City is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

Long-term liability activity for the year ended June 30, 2005 is summarized as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds and Notes</u>	<u>Other Notes</u>	<u>Capital Leases</u>	<u>Accumulated Annual and Sick Pay</u>
Governmental Activities:					
Debt at July 1, 2004	\$ 2,455,000	\$ -	\$4,082,706	\$493,636	\$8,971,519
New Debt:					
General Obligation United Tax Bonds	8,000,000	-	-	-	-
Capital lease equipment		-	-	44,200	-
Annual and sick pay	-	-	-	-	4,974,348
Principal payments made	(1,280,000)	-	(348,048)	(383,811)	(5,803,071)
Total governmental activities long-term debt	<u>9,175,000</u>	<u>-</u>	<u>3,734,658</u>	<u>154,025</u>	<u>8,142,796</u>

The following is a summary of Business Type long-term liability activity of the City for the year ended June 30, 2005:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds and Notes</u>	<u>Other Notes</u>	<u>Capital Leases</u>	<u>Accumulated Annual and Sick Pay</u>
Proprietary Fund:					
Debt at July 1, 2004	4,204,534	98,172,350	457,248	6,973,933	-
New Debt:					
Capital lease – Software	-	-	-	35,625	-
DWRF Bonds	-	10,941,140	-	-	-
Principal payments made	(1,208,504)	(3,015,000)	(60,480)	(1,733,412)	-
Total business type activities long-term debt at June 30, 2005	<u>2,996,030</u>	<u>106,098,490</u>	<u>396,768</u>	<u>5,276,146</u>	<u>-</u>
Total long-term debt - all activities June 30, 2005	<u>\$12,171,030</u>	<u>\$106,098,490</u>	<u>\$4,131,426</u>	<u>\$5,430,171</u>	<u>\$8,142,796</u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

A summary of long-term liability transactions for the year ended June 30, 2005, and the composition of the June 30, 2005, long-term debt balance follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Original Amount of Issue</u>	<u>Balance at June 30, 2004</u>	<u>Issuances (Retirements) During Year</u>
Governmental Activities:					
MEDC Economic Development loan	1/18	6%	\$ 767,837	\$ 767,837	\$ -
1991 Refunding bonds	6/05	5.0-6.4	4,000,000	50,000	(50,000)
1993 Tax Increment Financing Authority Refunding Bonds	6/06	5.8	16,640,000	2,405,000	(1,230,000)
2004 Financial Recovery General Obligation United Tax Bonds	5/10	3-3.25	8,000,000	-	8,000,000
Section 108 loan	8/2016	Variable	2,624,000	2,498,000	(126,000)
Capital lease obligation	9/05	5.0	1,213,000	399,607	(262,717)
Capital lease	11/04	6.1	174,498	30,892	(30,892)
Capital lease	7/05	6.625	112,573	63,137	(58,155)
Capital lease	10/05	0.55	44,200	-	44,200
					(32,047)
Purchase contract	9/05	5.59	659,425	217,239	(142,821)
Purchase contract	9/10	5.39	895,009	599,630	(79,227)
Accrued annual and sick pay				8,971,519	4,974,348
				-	(5,803,071)
				<u>\$16,002,861</u>	<u>\$ 5,203,618</u>
Total governmental activities					

Balance at June 30, <u>2005</u>	Due Within One <u>Year</u>
\$ 767,837	\$ 15,997
-	-
1,175,000	1,175,000
8,000,000	1,235,000
2,372,000	276,000
136,890	136,890
-	-
4,982	4,982
12,153	12,153
74,418	74,418
520,403	83,600
<u>8,142,796</u>	<u>400,000</u>
<u><u>\$21,206,479</u></u>	<u><u>\$3,414,040</u></u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Original Amount of <u>Issue</u>	Balance at June 30, <u>2004</u>	Issuances (Retirements) <u>During Year</u>
Business - Type Activities:					
Enterprise Funds:					
2001 MMBA Drinking Water Revolving Fund Revenue bonds	4/20	2.5	\$ 7,168,994	\$ 5,993,994	\$ (310,000)
2002 MMBA Drinking Water Revolving Fund Revenue Bonds	4/21	2.5	8,035,000	7,070,000	(340,000)
2003 MMBA Drinking Water Revolving Fund Revenue Bonds	4/22	2.5	9,480,000	8,224,581	(390,000)
2004 MMBA Drinking Water Revolving Fund Revenue Bonds	4/22	2.5	19,180,000	4,493,775	10,941,140
McCollum Avenue Drain Contract	5/10	5.10	1,500,000	689,534	(98,504)
Sewage Disposal	11/06	4.0-5.0	8,455,000	3,515,000	(1,110,000)
1997A Medical Center Revenue Refunding Bonds	7/07	6.0-7.0	16,445,000	3,205,000	(1,005,000)
1998a Medical Center Revenue Refunding Bonds	7/21	4.0-5.375	18,560,000	15,290,000	(585,000)
1998B Medical Center Revenue Refunding Bonds	7/29	4.0-5.375	20,570,000	18,895,000	(385,000)
2003 Medical Center Revenue Refunding Bonds	7/21	6.0-6.5	35,000,000	35,000,000	-
Purchase contract	9/01	5.39	596,672	457,248	(60,480)
Capital lease	2008	0.0	490,015	342,918	(85,096)
Capital lease	3/05	6.12	654,419	14,716	(14,716)
Capital lease	2009	4.7	8,000,000	5,580,208	(1,341,971)
Capital lease	11/07	4.5	2,549,202	1,036,091	(279,749)
Capital lease	2007	0.0	35,625	-	35,625
				<hr/>	<hr/>
				<u>\$109,808,065</u>	<u>\$4,959,369</u>
Total Business - Type Activities					

Balance at June 30, <u>2005</u>	Due Within One <u>Year</u>
\$ 5,683,994	\$ 315,000
6,730,000	345,000
7,834,581	374,587
15,434,915	651,949
591,030	107,460
2,405,000	1,200,000
2,200,000	1,070,000
14,705,000	615,000
18,510,000	405,000
35,000,000	-
396,768	63,842
257,822	130,983
-	-
4,238,232	1,397,932
756,342	292,479
23,750	11,875
\$114,767,434	\$6,981,107

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

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

Year End June 30,	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 3,014,040	\$ 423,514	\$ 6,981,108	\$ 5,122,124
2007	1,703,152	322,234	8,844,148	4,857,563
2008	1,742,968	261,237	6,264,381	4,472,958
2009	1,683,048	200,587	5,086,403	4,224,928
2010	1,733,405	140,313	5,236,840	3,991,464
2011-2015	2,664,104	205,280	28,850,959	16,165,019
2016-2020	522,966	38,932	36,276,996	8,617,029
2021-2025	-	-	12,346,599	2,267,059
2026-2030	-	-	4,880,000	410,919
Total	\$13,063,683	\$1,592,097	\$114,767,434	\$50,129,063

Section 7-302 of the City Charter, adopted November 4, 1975, limits "net" debt to 7% of the assessed value of all real and personal property in the City, but does not define "net" debt. The following computation is based on previous practice and is consistent with the requirements of State of Michigan Public Act 279 of 1909.

Assessed valuation at December 31, 2004	<u>\$1,677,708,562</u>
Legal debt limit - (7% of assessed valuation)	\$ 117,439,600
Total Bonded Debt at June 30, 2005	\$118,269,520
Less debt not subject to limitation under City charter and state statute:	
Revenue bonds and notes	<u>106,089,490</u>
Debt subject to limitation	<u>12,180,030</u>
Unused debt limitation	<u>\$105,259,570</u>

Drinking Water Revolving Fund Revenue Bonds and Financial Recovery Bonds:

The Drinking Water Revolving Fund Revenue Bonds and Financial Recovery Bonds issued by the Water Enterprise Fund and General Fund were issued by the State of Michigan and are secured by future State Revenue Sharing payments to be received by the City's General Fund.

Section 108 loan:

The Section 108 loan is an economic development loan program administered by the U.S. Department of Housing and Urban Development (HUD). Loans under the program are owed to HUD and are secured by future federal grant allocations to the City through the Community Development Block Grant Program.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

Advance refundings and defeasances:

The City Council, in 1985, approved the defeasance of the 1984 Tax Increment Finance Authority - Buick City Bonds. Sufficient assets to retire the debt were placed in escrow with a trustee, First of America Bank - Detroit, Michigan. The agreement between the City and the trustee stipulates that liability will be liquidated at the original maturity dates through June 1, 2006, with the balance of outstanding liability redeemed at that time. In accordance with SFAS #76, the fund liability was eliminated. The outstanding balance of the extinguished bond issue at June 30, 2005, was \$1,225,000.

In December 1985, Hurley Medical Center purchased U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities is sufficient to fund the scheduled principal and interest payments on the \$30,055,000 outstanding balance of the 1977 Revenue Rental Bonds and 1977 General Obligations Bonds. Accordingly, these bonds have been considered to be extinguished in an in-substance defeasance, and the securities and bonds do not appear in the balance sheet at June 30, 2005. The outstanding balance on the 1977 revenue rental and general obligation bonds was \$4,310,000 at June 30, 2005.

During 1985 the City Council approved the advance refunding on the 1978 Sewer Bonds. The net proceeds of the 1998 Refunding Bonds were used to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The agreement between the City and the trustee stipulates that the liability will be liquidated at the original maturity dates through June 30, 2007, with the balance of the outstanding liability redeemed at that time. As a result, the bonds are considered to be defeased and the liability has been removed from the general long-term debt account group at June 30, 2005. The refunding bonds are secured by the full faith and credit of the City. The outstanding balance of the defeased bonds at June 30, 2005, is \$2,425,000.

During 1993, the City Council approved the advance refunding of the 1985 Tax Increment Finance Authority Buick City Refunding Bonds. The net proceeds of the sale of \$16.64 million 1993 Tax Increment Revenue Refunding Bonds were used to purchase U. S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The agreement between the City and the trustee stipulates that the liability will be liquidated at the original maturity dates through June 1, 2006, with the balance of the outstanding liability redeemed at that time. As a result, the bonds are considered to be defeased and the liability has been removed from the general long-term debt account group at June 30, 2005. The refunding bonds are secured by the full faith and credit of the City. The outstanding balance of the defeased bonds at June 30, 2005, is \$3,650,000.

Total defeased debt still outstanding at June 30, 2005:

Governmental activities	\$ 4,875,000
Business type activities	<u>6,735,000</u>
	<u><u>\$11,610,000</u></u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds - (continued)

H. Restricted assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Hurley Medical Center:	
Equipment replacement and improvement	\$40,820,574
Self insurance	9,418,066
Revenue Bond Indenture – held by trustee	12,363,497
Children’s Miracle Network	369,340
Water Supply Fund:	
Revenue bond equipment replacement account	1,684,943
Debt service reserve	<u>2,718,587</u>
Total restricted assets	<u>\$67,375,007</u>

V. Other information

A. Economic dependency

General Motors Corporation is the largest employer in the City and holds approximately 8% of the City's total taxable real and personal property.

B. Deferred compensation

a. Deferred compensation - 457A Plans:

The City, Hurley Medical Center, and the Flint Downtown Development Authority all offer deferred compensation plans adopted in accordance with Internal Revenue Code Section 457A. The plans, available to substantially all employees, permit employees to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Section 457A Plans, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the sole benefit of the employees. The assets are not subject to the claims of the employer's general creditors.

Participants' rights created under the plan are equivalent to those of general creditors and only in an amount equal to the fair market value of the deferred account maintained with respect to each participant.

It is the opinion of legal counsel that the employers have no liability for losses under the plans, but do have the duty of care that would be required of an ordinary prudent investor.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information – (continued)

C. Retirement plans and other post-employment benefits

Significant details regarding the City's various retirement plans and other post-employment benefits are presented below:

1. Flint Employees' Retirement System:

The City of Flint Employees' Retirement System (FERS), a Single-Employer Public Employee Retirement System, covers substantially all employees of the City hired prior to October 1, 2003, including Hurley Medical Center, except certain firemen and policemen covered by the Charter Retirement Plan, and those employees that elect to participate in the Employees Defined Contribution - 401A Plan. The Retirement System is a blended component unit of the City of Flint. The plan was established by City ordinance and applicable state law, and is administered by a board of trustees. Investments of the plan are made through Bank One Trust Department and the Northern Trust. Employees who retire at or after age 55 (age 60 for certain Hurley Medical Center employees) with 10 years of credited service (8 years for appointed officials), or those members with 25 years credited service (23 years for police and fire), regardless of their age, are entitled to a retirement benefit. Certain police members can voluntarily retire at age 50 with 25 years of service. The retirement benefit can range from 1.7% to 2.6% of the participant's final average compensation based on the last three years (5 years for certain Hurley Medical Center employees) of credited service multiplied by the years of credit service depending on date of hire, and is payable monthly for life. Benefits fully vest on reaching 10 years of service with the benefit payable at age 55. The plan also provides death and disability benefits.

Member and employer contributions, benefits, and refunds are recognized when due. The investments are recorded on the balance sheet at fair value as determined by the custodian. The custodian utilizes electronic feeds from external pricing vendors for the majority of investments (95%). The remaining assets are valued through a variety of external sources. Gains and losses on the exchanges, or "swaps" of securities, are accounted for under the completed transactions method.

The Retirement System is in the process of obtaining a stand alone audited financial statement.

Membership in the plan at December 31, 2003, the date of the latest actuarial valuation, was comprised of 3,082 active plan members 302 inactive vested members and 2,996 retirees and beneficiaries receiving payments.

The Plan provides that the City and employees contribute amounts necessary to fund the actuarially determined benefits. Employees become members of FERS and are required to deposit amounts into the system based on rates determined by bargaining unit contracts of all compensation, including overtime. The employee contribution rates ranged from 2.0% to 7.0% in 2004. Deposits are accumulated in individual accounts for each member remaining in service. Upon termination, a member may withdraw the accumulated employee contributions plus any interest credited to his or her account.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

C. Retirement plans and other post-employment benefits - (continued)

1. Flint Employees' Retirement System: - (continued)

The City forwarded \$5,806,029 of pension contributions withheld from employees during the year ended June 30, 2005. During 2005, employer contributions rates ranged from 0% to 29.23% of covered payroll. The employer contributions funded retirement benefits, life insurance benefits, and the administration of the retirement system.

Actuarial assumptions:

Valuation date	December 31, 2003
Actuarial cost method	Hurley – individual entry age City – individual entry age
Amortization method	Level percent
Remaining amortization period	30 years – General and Fire 10 years - Police
Asset valuation method	4 year smoothed market
Investment rate of return	7.75%
Projected salary increases	3.75% to 7.55%
Includes inflation at	3.75%

Annual pension cost:

Three year trend information regarding the annual pension cost (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized as follows:

Fiscal Year <u>End</u>	Actuarial Valuation <u>Date</u>	Annual Pension <u>Cost (APC)</u>	% of APC <u>Contributed</u>	Net Pension Obligation (Asset) <u>at June 30</u>
6/30/03	12/31/00	\$6,588,897	100%	\$ -
6/30/04	12/31/01	6,226,037	100	-
6/30/05	12/31/02	5,838,015	100	-

During the fiscal year ended June 30, 2005, seven of nine Hurley Medical Center employee unions plus the exempt employees of Hurley Medical Center voted to change participation from the City of Flint PERS to the Michigan Municipal Public Employees Retirement System (MERS). The process to effectuate the transfer began July 1, 2005. Employer contribution rates of the MERS plan are expected not to be greater than those of the City of Flint PERS.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

C. Retirement plans and other post-employment benefits - (continued)

2. Charter Retirement Plan:

The Charter Retirement Plan, a single employer defined benefit pension plan, covers firemen and policemen employed by the City prior to July 1, 1947. The plan was adopted under City code. All employees covered by this plan have retired. Benefits are provided under a special City ordinance with retirees receiving a monthly benefit. The current membership of the plan at June 30, 2005, is 18 members. The City intends to pay retirement benefits as they become due from future years' General Fund revenues. The City's contribution to the plan for the year ended June 30, 2005, was \$255,705 and was calculated based on the actual current pension benefits due to be paid. The present value of vested benefits has not been determined. The City has not requested an actuarial valuation of the plan since 1985 because of the decreasing nature and the immateriality of the plan's potential unfunded pension benefit obligation and the fact that the City is paying benefits as they become due. Net assets available for pension benefits at June 30, 2005 were \$2,348.

3. I.C.M.A. 401A Plan:

The City has made available to appointed officials an alternative retirement plan to the general retirement pension plan. The plan is a non-contributory defined contribution plan adopted under City ordinance. The City contributes an amount equal to the lesser of 25% of the employee's compensation, or \$30,000. No employee contributions are required, and employees vest 100% immediately. Total contributions required and made by the City during the year ended June 30, 2005, were \$375,848, which represented 25% of current year covered payroll. The plan trustee is the International City Management Association. Financial transactions for the plan are accounted for in the I.C.M.A. 401A Plan Pension Trust Fund. Investments are stated at market which approximates cost. Total payroll and covered payroll for the year ended June 30, 2005, were \$45,272,125 and \$1,503,392, respectively.

4. Defined contribution retirement plan:

On December 3, 2003, a resolution was passed by City Council to establish a defined contribution 401 pension plan for members of AFSCME Local 1600 and Local 1799. Employees hired on or after October 1, 2003, will not be eligible for Flint Employees Retirement System defined benefit pension plan. Employees hired prior to October 1, 2003 had the option of transferring assets from the defined benefit pension plan upon implementation of the defined contribution plan. The City contributes 10% of employees' gross earnings and employees have a mandatory 5% contribution. Employee accounts are fully vested after 5 years of service. The City's total payroll during the current year was \$45,272,125. The current year contribution was calculated based on covered payroll of \$767,915 resulting in an employer contribution of \$75,385 and employee contribution of \$37,669.

The City provides pension benefits to all of its full-time employees (or specific employee group, if applicable) through a defined contribution 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 (or other date). As established by City ordinance (authority under which the pension obligation is established), the City contributes 10 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after 5 years of service.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

C. Retirement plans and other post-employment benefits - (continued)

4. Defined contribution retirement plan: - (continued)

The City's total payroll during the current year was \$45,272,125. The current year contribution was calculated based on covered payroll of \$177,440, resulting in an employer contribution of \$19,447 and employee contributions of \$9,071.

5. Excess Benefits Pension Plan:

The City established the City of Flint Excess Benefit Plan and Trust (the Plan) for the purpose of providing certain retiring employees with pension benefits in addition to those provided by the Flint Employees' Retirement System (FERS). Certain FERS participants receive an annual pension benefit that exceeds limits included in Section 415 of the Internal Revenue Code of 1986, as amended. Since the contractually required annual benefit exceeds Section 415 Limitations, the benefits cannot be funded through the FERS plan. The Excess Benefits Pension Plan and Trust was established as a separate pension trust to accumulate resources to pay these "excess" benefits on an annual basis.

Participation in the Plan is limited to FERS retirees whose benefit under the FERS defined benefit plan is limited by Section 415 of the Code and who retire at any time based on employment as a member of a bargaining unit represented by Local 1600 or Local 1799 of American Federation of State, County, and Municipal Employees. All employees covered by this plan have retired.

The annual benefit provided under the plan shall be the excess, if any, of each individual participant's benefit over the Section 415 limits in effect that calendar year. All benefits payable under this plan shall be paid in the same manner and form (using the same actuarial assumptions) as pension benefits paid under the FERS. Benefits shall be paid from the Plan once the member has received the maximum amount permitted within the limits of Code Section 415 during a plan year.

The Plan is intended to be funded on an annual basis via City contributions. There are no employee contributions to the Plan. The annual contribution will be determined by estimating the amount of "excess" benefits that will be paid out that calendar year. During the year ended June 30, 2005, employer contributions of \$55,112 were made to the plan and benefits of \$55,112 were paid out.

No actuarially computation of the actuarially required contribution has been performed.

6. Retiree Death Benefits Plan:

The City provides post retirement death benefits to certain retirees who retired after July 1, 1978, under the terms of collective bargaining agreements with two employee unions. If the retiree was a member of one of the bargaining units at the time of retirement, his or her designated beneficiary will receive a death benefit at the time of the retiree's death. The death benefit ranges from \$2,500 to \$10,000 depending on the retirement date.

The benefits are funded in advance by employee withholdings and a matching employer contribution. The employee contributions are calculated at a set amount for each hour worked by union members during the biweekly pay period. The employee withholdings and matching employer contributions are deposited into a separate account for investment purposes. The investments are administered by a seven member board appointed by the two unions and the mayor.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

C. Retirement plans and other post-employment benefits - (continued)

6. Retiree Death Benefits Plan: - (continued)

As of year end, there were 697 retirees who were eligible for this benefit. Employee and employer contributions for the year ended June 30, 2005, were both \$19,551. Net assets available for benefits, reported at fair value were \$2,582,584 at year end. No actuarial valuation has been performed to determine the present value of vested benefits. During 2005, death benefits of \$67,000 were paid.

7. Post-retirement health care benefits:

Hurley Medical Center:

Effective for retirements on or after July 1, 1983, Hurley Medical Center provides a portion of health insurance premiums for retired employees. The insurance premium for retired non-exempt employees is \$168 to \$1,499 per month to age 65 and a Medicare supplement after age 65. Retired exempt employees receive full coverage. No payment is made if the retired employee is covered under other employment. The estimated cost of such benefits is accrued based on a level percent of payroll. Accrued costs charged to expense were \$3,099,680 in the year ended June 30, 2005. The number of participants eligible to receive benefits were 642 in the year ended June 30, 2005. The Medical Center maintains a trust to be used for payment of the Medical Center's portion of health insurance premiums for retired employees.

City of Flint excluding Hurley Medical Center:

The City provides post-employment health care benefits to its retirees as required by bargaining unit contract or city ordinance. The benefits are paid by the City on a "pay as you go basis" and are not prefunded. No actuarial determination has been performed on the post-employment health care benefits liability. The benefits are paid through the Retiree Health Care Benefits Trust Fund, which was established in accordance with State law. The City is self insured for these health care benefits as described in the risk management footnote. For the year ended June 30, 2005, the City paid out \$16,447,867 in retiree health care costs. As of year end, 1,569 retirees were eligible to receive these health care benefits.

D. Building department fund revenues and expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. A separate fund has been established to account for the construction code activity. The City chose the latter because historically the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2005 is as follows:

Revenue:	
Building permits	\$ 1,337,590
Federal revenue	387,333
Charges for services	67,200
Expenditures	<u>(2,883,968)</u>
Revenue over (under) expenditures	<u><u>\$(1,091,845)</u></u>

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

E. Summary disclosures of significant contingent liabilities

Federal, state, and local grants:

The City participates in a number of federally, state, and locally assisted grant programs, principally of which is the federally funded Community Development Block Grant. The programs are subject to compliance audits. In accordance with the Single Audit Act of 1984, compliance audits of federal grants were made during the current year and have been reported under a separate cover. However, specific grantors have yet to make final approval of the compliance audits. The amount, if any, of expenditures which may be disallowed by the grant agencies, cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

F. Risk management

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The City has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific City facilities or events. See separate disclosures below for Hurley Medical Center Enterprise Fund.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

The City is self insured for workmen's compensation on a pay as you go basis for claims up to \$500,000, with reinsurance coverage provided once claims exceed \$1,000,000 in the aggregate. The self insurance program is administered by a third party administrator. All workman's compensation benefits are paid out of the Fringe Benefits Internal Service Fund. The amount of estimated claims payable at June 30, 2005 was not material.

The City is self insured for active employee dental and eye care benefits on a pay as you go basis. The self insurance program is administered by a third party administrator. All claims and benefits are paid out of the Fringe Benefits Internal Service Fund. The amount of estimated claims payable at June 30, 2005 was not material.

The City pays unemployment claims on a reimbursement basis.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

F. Risk management - (continued)

The City is self insured for medical benefits provided to active employees and retirees. The benefits are funded on a pay as you go basis. Claims are being paid out of the Fringe Benefits Internal Service Fund for active employee claims and out of the Retiree Health Care Trust Fund for retirees. The plans are administered by Blue Cross and Blue Shield and Health Plus of Michigan. Once the individual contract or aggregate stop loss amount is reached reinsurance provides the remaining benefits. The City has two health insurance plans that are self insured, Blue Cross/Blue Shield of Michigan (BCBSM) and HealthPlus. For the year ended June 30, 2005, the City paid out \$4,577,293 in claims and administration fees to HealthPlus. The City is protected from catastrophic claims by an excess insurance policy which provides \$2,000,000 in coverage per specific contract with a \$150,000 Self Insured Retention (SIR). The City did not have any claims in excess of the stop loss deductible during the year. The City paid BCBSM \$19,572,079 during the year for claims funding and administration. The self insured coverages provided through BCBSM were protected by Specific Stop Loss coverage, which provided an unlimited excess with a \$100,000 deductible. No claims payable exist at June 30, 2005 due to escrowed reserves maintained by the third party administrators. The City also provides fully insured HMO health insurance coverage to a limited number of employees. At June 30, 2005, there were 1,569 retirees that were receiving medical benefits.

The City has a commercial insurance policy that covers certain general tort liability. The per claim limit is \$1,000,000 with a \$500,000 deductible per occurrence and a \$3,000,000 aggregate claim annually. The commercial policy covers public officials, employment practices, employee benefits, law enforcement, and commercial auto.

The City is self insured for other potential claims not covered by the commercial policy. The Hurley Medical Center Enterprise Fund is also self insured for a number of risks. The amounts below include all general liability claims against the City except for those related to Hurley Medical Center. Details regarding Hurley's self insurance practices are detailed separately. The City has estimated the claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not yet been reported to the City. The estimate is based on legal counsel's recommendation and past settlement history. The estimated liability does not include any incremental costs. The amounts below include all general liability claims against the City except for those related to Hurley Medical Center. Hurley administers its own risk management program and details regarding Hurley's self insurance practices are detailed separately.

These claim estimates are recorded as accounts payable in the Self Insurance Internal Service Fund. Changes in the estimated liability as well as the total estimated costs (based on prior history and claims presented) of claims for the past fiscal year for the City, exclusive of the Hurley medical Center Enterprise Fund, were as follows:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Estimated liability, beginning of year	\$3,645,022	\$2,610,022
Estimated claims incurred, including changes in estimates	984,279	3,780,020
Claims payments	<u>(815,645)</u>	<u>(2,745,020)</u>
Estimated liability, end of year	<u>\$3,813,656</u>	<u>\$3,645,022</u>

The estimated liability is included in accounts payable in the self insurance internal service fund.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

F. Risk management – (continued)

Hurley Medical Center Enterprise Fund:

Hurley Medical Center is self insured for its hospital professional and patient general liability exposures separate from other City risk management programs. The Medical Center has established a Self-insurance Trust to assist in accumulating resources to fund excess-insurance premiums and to pay claims.

The Medical Center's self insured retention is \$6 million for the first annual occurrence and \$4 million for each additional occurrence annually with excess claims made coverage up to \$15 million annually. Claims in excess of \$15 million are to be covered by the Medical Center.

The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims.

The carrying amount of liabilities for unpaid claims amounted to \$24,242,445 June 30, 2005.

The following represents the change in the aggregate liabilities for claims and defense costs payable for the years ended June 30, 2005 and 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Balance - beginning of year	\$ 21,545,354	\$19,553,190
Claims paid	(8,619,433)	(3,621,133)
Defense costs and other fund expenses	(2,155,973)	(2,365,278)
Excess insurance premium payments	(1,821,833)	(1,618,639)
Increase in claims liability	<u>15,294,330</u>	<u>9,597,214</u>
Balance - end of year	<u>\$ 24,242,445</u>	<u>\$21,545,354</u>
Insurance Trust assets (at market) - end of year	<u>\$ 3,603,534</u>	<u>\$ 2,311,714</u>

The Medical Center is self insured for workers' compensation claims. The Medical Center is on a pay-as-you-go basis. Current claims expense for the year ended June 30, 2005 was \$1,386,339.

Malpractice claims have been asserted against the Medical Center by various claimants. The claims are in various stages of processing, including some that have been brought to trial. Counsel is unable to conclude about the ultimate outcome of the actions, however, it is probable that certain actions will result in unfavorable settlements for the Medical Center. There also are known incidents occurring through June 30, 2005 that may result in the assertion of additional claims. Management is of the opinion that the settlement of those claims probable of unfavorable outcome, as well as the settlement, if any, of such other asserted and unasserted claims, are within the self-insurance limits. Consequently, management believes that such settlements will not significantly affect the Medical Center's financial results. The Medical Center maintains an irrevocable trust to be used for the payment of settlements. The Medical Center funds the trust based upon an annual actuarial determination. The Medical Center has a stop loss insurance policy relating to malpractice claims which limits the claims that are paid from the irrevocable trust.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

F. Risk management - (continued)

Risk Management - component units:

The Flint Economic Development Corporation is exposed to various risks of loss related to property loss, torts, and error and omissions. The Corporation has purchased commercial insurance for these risks associated with a small business incubator facility which leases commercial and light industrial space to new businesses. Since the Corporation occupies premises located in the City of Flint Municipal Center and all Corporation personnel are employees of the City, any losses related to general liability, employee injuries, workman's compensation, and employee medical benefits are covered by City self insurance risk management programs. No claims related to Corporation activities have been presented to the City as of June 30, 2005.

The Downtown Development Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance coverage through various policies for general liability on all Authority-owned property and workmen's compensation. There were no reductions in coverage during the current year.

G. IFT/CFT contingency

The City collects industrial facility taxes (IFT) and commercial facility taxes (CFT) on behalf of all taxing jurisdictions. For the tax years 1995 through 2000 the IFT and CFT's were distributed to the various taxing jurisdictions based on guidance from the State of Michigan. During fiscal 2003, the State of Michigan finalized their audit of the distribution of the 1995 through 2000 IFT and CFT taxes. Their audit showed the taxes had been over distributed to the City of Flint School District, Genesee Intermediate School District, Michigan Educational Trust and under paid to the Michigan Department of Treasury. How to pay the Michigan Department of Treasury and correct the distribution of these taxes is currently under negotiation.

H. Interest rate swap

On July 1, 2005, Hurley Medical Center entered into an interest rate swap agreement with Piper Jaffray related to the \$35 million bond issue that changed interest to be paid from a fixed rate of 5.69% to a variable rate of 3.3%. The term of the agreement is seven years but can be terminated at any time.

I. Upcoming reporting changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2006. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.

City of Flint, Michigan
Notes to Basic Financial Statements
June 30, 2005

V. Other information - (continued)

J. Accounting changes

Beginning July 1, 2004, the City changed its accounting practices for certain funds and activities. Through June 30, 2004, the City reported a defined contribution plan within its fiduciary trust funds. On further examination, the plan is not administered by the City and should not be reported within the fiduciary funds. In addition, prior to July 1, 2004, the Atwood Stadium Building Authority Fund was reported as a blended component unit. On further examination, the Authority should have been reported as a discretely presented component unit. Three changes were made beginning July 1, 2004. At July 1, 2004, the City established a motor pool internal service fund for fleet operations previously accounted for with capital assets recorded in governmental activities in the statement of net assets. Therefore, the net carrying value of the capital assets held at June 30, 2004, was recorded in the new internal service motor pool fund.

The accounting changes above resulted in the following changes to beginning net assets for the government-wide and internal service fund statements and changes to beginning fund balance in the governmental financial statements.

	Governmental Fund Financial Statements	Statement of Activities Governmental Activities	Fiduciary Fund Statement of Changes	Internal Service Fund Financial Statements
Fund balance/net assets at July 1, 2004, as originally reported	\$14,742,298	\$150,676,592	\$779,974,489	\$ -
Reclassification of Atwood Stadium component unit	(9,342)	(9,342)	-	-
Removal of defined contribution pension plans	-	-	(7,637,128)	-
Transfer of capital assets to new internal service fund	-	-	-	1,310,654
Fund balance/net assets at July 1, 2004, as restated	<u>\$14,732,956</u>	<u>\$150,667,250</u>	<u>\$772,337,361</u>	<u>\$1,310,654</u>