

Notes to Basic Financial Statements

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

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. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The aggregate discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that they are 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 (Authority) serves all citizens and is responsible for major capital improvements to Atwood Stadium, a recreational facility serving the citizens of the City. 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 has both governmental and business-type activities.

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 Corporation has both governmental and business-type activities.

The Flint Area Enterprise Community (FAEC) is a non-profit organization, established under state law. FAEC is responsible for coordinating and implementing a strategic plan to advocate and develop business and community development in a federally designated zone that includes portions of Mt. Morris Township and the City of Flint. The City appoints a majority of the Board of Directors, provides the majority of its funding for operations, and any assets remaining at the cessation of its operating activities would be returned to the City of Flint. The FAEC is presented as a governmental activity.

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I. Summary of significant accounting policies - (continued)

A. Reporting entity - (continued)

Discretely presented component units: - (continued)

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	Flint Area Enterprise Community 805 Welch Boulevard Flint, Michigan 48504
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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 The Hurley Clinics, THC) 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 is a deferred tax asset of \$150,000 at year end.

Hurley Medical Center Joint Ventures:

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.

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I. Summary of significant accounting policies - (continued)

A. Reporting entity - (continued)

Hurley Medical Center Joint Ventures: - (continued)

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, 2006 was \$3,471,309. A total of \$1,600,000 was distributed to the Medical Center during the year ended June 30, 2006.

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 \$(258,060) at June 30, 2006. The arrangement provides that the three entities will share in the excess revenues or expenditures of the joint venture. This joint venture was dissolved as of December 31, 2005.

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, 2006 was \$493,156. The arrangement provides that the Medical Center will be allocated 50 percent in income or losses 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, 2006 was \$-0-. The arrangement provides that the seven hospitals will share equally in the income or losses of the joint venture. The Michigan Lithotripsy Network was sold in 2006 for \$500,000, resulting in a net gain to the Medical Center of \$468,939.

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 laboratory, and radiation oncology. The Medical Center's net investment at June 30, 2006 was \$2,590,223. The arrangement provides that the two entities will share equally in the income or losses of the joint venture.

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 \$1,140,309 at June 30, 2006. Investment loss recognized in the year ended June 30, 2006 using the equity method was \$316,169.

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

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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*, 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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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I. Summary of significant accounting policies - (continued)

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

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.

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 and Employee Benefit 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 in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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 the standards 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.

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I. Summary of significant accounting policies - (continued)

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

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.

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 revenue include all taxes and interest income.

When an expense is incurred for purpose for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

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

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, 2006, 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 Sewage Disposal Enterprise Fund to report the interfund receivable. Accordingly, this Sewer 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.

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I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity

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.

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.

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I. Summary of significant accounting policies - (continued)

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

7. Capital assets - (continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$914,677 of interest expense was capitalized as part of the cost of assets under construction.

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	10-50
Water and sewer infrastructure	10-75
Machinery and 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.

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

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

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

9. Long-term obligations and interest payments - (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

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, 2006, 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. This resulted in \$11,768,036 for operating, \$3,995,434 for public improvement and \$4,792,680 for garbage collection.

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 August 1996 - December 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 February 2006-December 2011). Because these additional levies were approved by a special vote, they do not fall under the 10 mill charter limitation. This resulted in \$772,461 for paramedic services, \$798,922 for parks and \$3,196,389 for neighborhood police.

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.

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

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

12. Hurley Medical Center - cost based reimbursement

Patient accounts receivable at June 30, 2006, 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.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$15,650,000 for 2006.

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 74% of the Medical Center's revenues are based on participation in the Blue Cross Blue Shield, Medicare, and Medicaid programs for the year ended 2006.

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. During 2006, the Medical Center changed the method in which it applies its charity care policy. The eligibility criteria for 2006 was based on levels of income. The affect of the change was to decrease revenue recognized of approximately \$10 million with a corresponding increase in bad debt expense as compared to 2005.

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.

E. Use of Estimates

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

City of Flint, Michigan
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II. 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). Informational summaries of projected revenue 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.
2. Public hearings were conducted at city hall to obtain taxpayer comments.
3. At the first City Council meeting in June, the budget was legally enacted on a department level through the passage of a resolution in accordance with State law.
4. The Mayor, or his designee, is 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, except for the Federal Grants Fund, were adopted on a basis consistent with generally accepted accounting principles. The budget for the federal grants fund includes grant revenue and expenditures which were passed through to other City fund and recorded as revenue and expenditures in the grant receiving fund. For the fund financial statements, the federal grant fund includes only those revenue and expenditures incurred directly by that fund. In addition budgets were not adopted for the State Grants, Atwood Stadium, City Park and Code Abatement Special Revenue Funds due to no expenditures were anticipated for the year.
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 goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

City of Flint, Michigan
Notes to Financial Statements
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II. Stewardship, compliance, and accountability - (continued)

A. Budgetary information - (continued)

A reconciliation of the budgetary comparison schedule to the fund based statements of changes in fund balance is as follows.

Federal Grants:	<u>Total Revenue</u>	<u>Total Expenditures</u>
Balance per budgetary comparison schedules	\$11,712,588	\$ 11,624,450
Revenues and expenditures budgeted for in other funds	<u>(3,442,980)</u>	<u>(3,442,980)</u>
Balance per fund based statements	<u>\$ 8,269,608</u>	<u>\$ 8,181,470</u>

B. Excess of expenditures over appropriations

The following funds incurred expenditures in excess of appropriations at the department level during the year:

	<u>Final Budget</u>	<u>Actual</u>	Actual Over Amended <u>Budget</u>
General Fund:			
Union representatives	\$ 289,832	\$ 300,669	\$ 10,837
Transfers out	511,205	1,203,670	692,645
Neighborhood Policing Special Revenue			
Police department	3,584,692	3,694,416	109,724

III. 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, 2006 is comprised of the following:

Cash deposits	\$ 5,199,804
Investments	<u>74,652,371</u>
	<u>\$ 79,852,175</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

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

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, 2006, follows:

<u>Fund</u>	<u>Pooled Cash and Investments</u>	<u>(Due to)</u>
General Fund	\$ 9,233,337	\$ -
Special Revenue Funds:		
Major Streets Fund	10,835,046	-
Local Streets Fund	3,644,848	-
Federal Grants Fund	-	(908,155)
Neighborhood Policing Fund	-	(13,484)
State Act 251 - Forfeitures Fund	1,098,073	-
EDA Revolving Loan Fund	27,394	-
Atwood Stadium Fund	5,807	-
Local Law Enforcement Grant	69,442	-
Parks and Recreation	1,245,231	-
City Park Fund	7,184	-
Longway Fund	8,016	-
Building Department Fund	176,360	-
Garbage Fund	56,758	-
Debt Service Funds:		
Windmill Place Debt Service Fund	6,206	-
Buick City Debt Service Fund	515	-
Capital Projects Funds:		
Public Improvement Fund	2,576,139	-
Enterprise Funds:		
Water Supply Division Fund	13,442,128	-
Sewage Disposal Division Fund	30,197,320	-
Golf Course Fund	101,219	-
Internal Service Funds:		
Data Processing Fund	-	(495,116)
Fringe Benefits Fund	1,265,709	-
Self-Insurance Fund	3,622,454	-
Central Maintenance	1,878,928	-
Pension Trust Funds:		
Flint Employees' Retirement System Fund	-	(609,867)
Retiree Health Care Fund	273,310	-
Agency Funds:		
Miscellaneous Agency Fund	2,107,373	-
	<u>\$81,878,797</u>	<u>\$2,026,622</u>
Total pooled cash and investments	<u>\$79,852,175</u>	

City of Flint, Michigan
Notes to Financial Statements
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III. Detailed notes on all funds – (continued)

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 City Council is 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.

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 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.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

The City deals only with qualified banks and primary investment firms that adhere to the specific guidelines established by industry practice for repurchase agreements.

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 \$39,759,335 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 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, collateralized securities of \$18,634,720 were uninsured and unregistered, and held by the counterparty or by its trust department, or agent, but not in the City's name.

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, 2006, 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	\$ 18,090	0.13
U.S. government bonds	11,365	.72
Non government CMO's	5,399	1.25
Commercial paper	18,669	0.04
Corporate bonds	14,556	.52
U.S. Government agency	116,187	4.7
Government mortgage backed securities	45,101	4.33
Asset backed securities	<u>1,157</u>	.04
	<u>\$230,524</u>	

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

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, 2006, 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	\$ 91,816	AAA	Standard and Poors
	5,994	Not rated	N/A
Non government CMO's	4,570	AAA	Standard and Poors
	828	Not rated	N/A
Commercial paper	8,002	A1	Standard and Poors
	7,872	A2	Standard and Poors
	2,795	P1	Moody's
Repurchase Agreement	18,090	Not rated	N/A
Mutual fund	4,571	Not rated	N/A
Asset backed securities	1,157	AAA	Standard and Poors
Corporate bonds	469	AAA	Standard and Poors
	6,884	AA	Standard and Poors
	5,291	A	Standard and Poors
	1,699	BBB	Standard and Poors
	210	Not rated	N/A
	1,235	AAA	Standard and Poors
Money market	1,307	AAA	Fitch
	52,248	Pool Average A1	Standard and Poors
	434	Not rated	N/A
Government mortgage backed securities	24,945	Not rated	N/A
	58,080	Pool Average AA	Standard and Poors
	68,896	Pool Avg AA1/AA2	Standard and Poors
U.S. government bonds	11,269	AAA	Standard and Poors
	95	BBB	Standard and Poors
	<u>\$378,767</u>		

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

Credit risk: - (continued)

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	Australia	\$ 737
	Chinese	342
	Canadian Dollar	1,604
	European Euro	34,780
	Japanese Yen	5,578
	Mexican	555
	Netherlands	3,430
	Swiss Franc	245
	Taiwan	1,427
	Israel	793
	Korean	882
British Pound	<u>938</u>	
		<u><u>\$ 51,311</u></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 102 percent of the market value of the loaned securities.

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. Cash collateral of \$108,657,353 was received for lent securities with a fair market value of \$106,802,577. Cash collateral was invested in a short term invest pool, with an average duration of 41 days at June 30, 2006. Noncash collateral was also received of \$1,414,344, for a securities lent with a fair market value of \$1,390,478. Noncash collateral cannot be pledged or sold unless the borrower defaults. The average term of the System’s overall loans was approximately 54 days at June 30, 2006.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

B. Deposits and investments - (continued)

Securities lending agreement: - (continued)

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>
Equities	\$453,258
US government bonds	10,847
US government agencies	65,893
Government mortgage backed securities	20,566
Non-government mortgage backed securities	5,399
Corporate bonds	14,556
Asset back securities	1,157
Aggregate bond index funds	126,997
Partnerships	33,256
Short-term money market funds	<u>52,248</u>
	<u>\$784,161</u>

The following represents the balances relating to the securities lending transactions as of June 30, 2006. (Amounts are in thousands; investments are reported at fair value.)

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Collateral Received</u>	<u>Collateral Invested</u>	<u>Collateral Investment Type</u>
US government bonds	\$ 10,432	\$ 10,607	\$ 10,434	Cash
			172	US gov't securities & bank letters
US government agencies	10,046	10,215	9,358	Cash
			857	US gov't. securities & bank letters
US corporate bonds	3,275	3,328	3,280	Cash
			48	US gov't securities & bank letters
US equities	84,439	85,919	85,584	Cash
			335	US gov't securities & bank letters
	<u>\$108,193</u>	<u>\$110,071</u>	<u>\$110,071</u>	

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

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. 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 Fund</u>	<u>Nonmajor, Internal Service, and Other Funds</u>	<u>Total</u>
Receivables:			
Taxes	\$ 2,824,661	\$ 6,493,372	\$ 9,318,033
Accounts	4,852,688	336,887	5,189,575
Special assessment	73,129	-	73,129
Intergovernmental	4,314,216	4,383,944	8,698,160
Interest and dividends	-	1,571,414	1,571,414
Notes and leases	-	9,865,487	9,865,487
	<hr/>	<hr/>	<hr/>
Gross receivables	12,064,694	22,651,104	34,715,798
Less: allowance for uncollectibles	(2,481,839)	(3,491,465)	(5,973,304)
	<hr/>	<hr/>	<hr/>
Net receivables	<u>\$ 9,582,855</u>	<u>\$19,159,639</u>	<u>\$28,742,494</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)	\$ 2,074,960	\$ -	\$2,074,960
Delinquent property taxes receivable	1,007,975	-	1,007,975
Long-term notes receivable	4,098,319	-	4,098,319
Long-term advance to component unit	767,837	-	767,837
Grant receipts prior to meeting all eligibility requirements	-	521,707	521,707
	<hr/>	<hr/>	<hr/>
Total deferred/unearned revenue for governmental funds	<u>\$7,949,091</u>	<u>\$521,707</u>	<u>\$8,470,798</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

C. Receivables - (continued)

Business type activities:

	Hurley Medical Center	Water Supply	Sewage Disposal	Total
Receivables:				
Interest - restricted	\$ 774,398	\$ -	\$ -	\$ 774,398
Accounts	82,766,061	10,570,429	6,103,070	99,439,560
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	83,540,459	10,570,429	6,103,070	100,213,958
Less: allowance for uncollectibles	(15,650,000)	(3,169,884)	(639,176)	(19,459,060)
	<hr/>	<hr/>	<hr/>	<hr/>
Net total receivables	<u>\$ 67,890,459</u>	<u>\$ 7,400,545</u>	<u>\$ 5,463,894</u>	<u>\$ 80,754,898</u>

D. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,792,907	\$ -	\$ 342,920	\$ 13,449,987
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated:				
Buildings	19,687,556	100,113	-	19,787,669
Improvements other than buildings	9,221,092	241,283	-	9,462,375
Machinery and equipment	28,994,663	5,444,114	1,412,747	33,026,030
Infrastructure	298,630,241	11,456,136	321,000	309,765,377
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	356,534,552	17,241,646	1,733,747	372,041,451
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:				
Buildings	13,119,163	405,972	-	13,525,135
Improvements other than buildings	3,953,271	399,054	-	4,352,325
Machinery and equipment	21,023,604	2,188,621	1,412,747	21,799,478
Infrastructure	192,118,316	10,714,360	321,000	202,511,676
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	230,214,354	13,708,007	1,733,747	242,188,614
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	126,317,198	3,533,639	-	129,852,837
	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	<u>\$140,110,105</u>	<u>\$ 3,533,639</u>	<u>\$ 342,920</u>	<u>\$143,302,824</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

Primary Government – (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 5,328,072	\$ 120,544	\$ -	\$ 5,448,616
Construction in progress	21,265,276	16,107,575	14,758,754	22,614,097
Total capital assets, not being depreciated	<u>26,593,348</u>	<u>16,228,119</u>	<u>14,758,754</u>	<u>28,062,713</u>
Capital assets, being depreciated:				
Buildings and system	167,611,560	3,908,248	444,405	171,075,403
Improvements other than buildings	15,043,642	240,326	98,706	15,185,262
Machinery and equipment	317,959,696	15,120,371	16,519,547	316,560,520
Total capital assets, being depreciated	<u>500,614,898</u>	<u>19,268,945</u>	<u>17,062,658</u>	<u>502,821,185</u>
Less accumulated depreciation for:				
Buildings and system	109,402,953	6,510,176	362,235	115,550,894
Improvements other than buildings	7,274,803	599,112	29,446	7,844,469
Machinery and equipment	204,466,418	12,382,042	13,735,776	203,112,684
Total accumulated depreciation	<u>321,144,174</u>	<u>19,491,330</u>	<u>14,127,457</u>	<u>326,508,047</u>
Total capital assets, being depreciated, net	<u>179,470,724</u>	<u>(222,385)</u>	<u>2,935,201</u>	<u>176,313,138</u>
Business-type activities capital assets, net	<u>\$206,064,072</u>	<u>\$16,005,734</u>	<u>\$17,693,955</u>	<u>\$204,375,851</u>

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

Governmental activities:

Current:

Legislative	\$ 889
Judicial	5,106
General government	1,324,886
Police	294,357
Fire	535,526
Transportation	10,742,864
Emergency dispatch	1,571
Parks and recreation	744,566
Community enrichment and development	<u>58,242</u>

Total depreciation expense - governmental activities \$13,708,007

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

Primary Government – (continued)

Business-type activities:

Hospital	\$10,558,488
Water	3,792,119
Sewer	4,770,492
Golf	<u>370,231</u>

Total depreciation expense – Business-type activities	<u>\$19,491,330</u>
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Construction commitments:

The government has active construction projects as of June 30, 2006. The projects include water plant improvements, street construction in areas with newly developed housing, and widening and construction of existing streets and bridges. 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	\$13,870,836	\$14,070,836
Road and bridge construction	<u>5,790,457</u>	<u>7,113,431</u>
Total	<u>\$19,661,293</u>	<u>\$21,184,267</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.

Discretely presented component units capital asset activity:

Activity for the Flint Downtown Development Authority for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</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>46,276</u>	<u>702</u>	<u>-</u>	<u>46,978</u>
Governmental activities capital total capital assets, net of depreciation	<u>910</u>	<u>(702)</u>	<u>-</u>	<u>208</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</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	260,252	38,159	-	298,411
Land improvements	1,457,327	-	-	1,457,327
Leasehold improvements	5,519,160	-	-	5,519,160
Totals, capital assets being depreciated	<u>7,236,739</u>	<u>38,159</u>	<u>-</u>	<u>7,274,898</u>
Less accumulated depreciation for:				
Buildings	217,445	13,437	-	230,882
Land improvements	1,382,326	30,000	-	1,412,326
Leasehold improvements	5,036,350	183,984	-	5,220,334
Total accumulated depreciation	<u>6,636,121</u>	<u>227,421</u>	<u>-</u>	<u>6,863,542</u>
Total business-type activities, total capital assets, net of depreciation	<u>6,099,130</u>	<u>(189,262)</u>	<u>-</u>	<u>5,909,868</u>
Capital assets – net	<u>\$ 6,100,040</u>	<u>\$ (189,964)</u>	<u>\$ -0-</u>	<u>\$ 5,910,076</u>

Activity for the Flint Economic Development Corporation for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</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	686,577	-	-	686,577
Machinery and equipment	17,046	-	-	17,046
Totals, capital assets being depreciated	<u>1,218,405</u>	<u>-</u>	<u>-</u>	<u>1,218,405</u>
Less accumulated depreciation for:				
Buildings	418,905	25,739	-	444,644
Building improvements	270,145	34,638	-	304,783
Machinery and equipment	17,046	-	-	17,046
Total accumulated depreciation	<u>706,096</u>	<u>60,377</u>	<u>-</u>	<u>766,473</u>
Total capital assets, being depreciated, net	<u>512,309</u>	<u>(60,377)</u>	<u>-</u>	<u>451,932</u>
Capital assets, net	<u>\$ 606,169</u>	<u>\$ (60,377)</u>	<u>\$ -0-</u>	<u>\$ 545,792</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

D. Capital assets - (continued)

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

Activity for the Flint Area Enterprise Community for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 189,254	\$ -	\$ -	\$ 189,254
Equipment	39,619	3,388	-	43,007
Totals, capital assets being depreciated	<u>228,873</u>	<u>3,388</u>	<u>-</u>	<u>232,261</u>
Less accumulated depreciation for:				
Leasehold improvements	128,065	18,925	-	146,990
Equipment	39,619	198	-	39,817
Total accumulated depreciation	<u>167,684</u>	<u>19,123</u>	<u>-</u>	<u>186,807</u>
Total capital assets, being depreciated, net	<u>\$ 61,189</u>	<u>\$ (15,735)</u>	<u>\$ -0-</u>	<u>\$ 45,454</u>

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Disposal Division Fund	General	\$ 7,279,154
	Special Revenue Funds:	
	Federal Grants	1,935,674
	Neighborhood Policing Fund	13,484
	Building Fund	38,087
	Internal Service Funds:	
	Data Processing	495,116
	Pension Trust Funds:	
	Flint Employee's Retirement System	609,867
	Fiduciary Funds:	
Sewage Disposal Division	Miscellaneous Agency Fund	212
Neighborhood Parking	Miscellaneous Agency Fund	2,203
Parks and Recreation Fund	Miscellaneous Agency Fund	551
Garbage Collection	Miscellaneous Agency Fund	3,304
Public Improvement	Miscellaneous Agency Fund	2,753
Water Supply Division	Miscellaneous Agency Fund	321
		<u>\$10,380,726</u>

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

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

E. Interfund receivables, payables, and transfers - (continued)

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
Public Improvement Fund	Component Unit – EDC	88,068
Component Unit:		
Component Unit – EDC	Miscellaneous Agency Fund	102,885
Component Unit – EDC	Primary Government – General Fund	<u>29,904</u>
		<u>\$ 995,802</u>

Advances to/from other funds:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Sewer Disposal Division Fund	Central Maintenance Fund	\$4,539,404
	Golf Course Fund	<u>711,957</u>
		<u>\$5,251,361</u>

The advances from the sewer fund to the central maintenance and golf course funds were utilized to purchase equipment. The advances are to be repaid over five years with all amounts being repaid in May 2011. An interest rate of 5.25% is being charged to the borrowing funds.

	<u>Transfer In</u>		
	<u>Nonmajor Governmental</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Transfer out:			
General fund	\$1,203,670	\$ -	\$1,203,670
Nonmajor governmental funds	3,366,310	-	3,366,310
Fiduciary funds	-	1,426,618	<u>1,426,618</u>
Total transfers out	<u>\$4,569,980</u>	<u>\$1,426,618</u>	<u>\$5,996,598</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 Financial Statements
June 30, 2006

III. 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, \$3,888,808 has been capitalized as equipment and related accumulate depreciation was \$2,830,809.

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, 2006:

2007	\$2,033,126
2008	1,500,564
2009	<u>75,544</u>
Total future minimum payments	3,609,234
Less amount representing interest	<u>(162,825)</u>
Long-term obligation under capital leases	<u>\$3,446,409</u>

Also, Hurley Medical Center and HHS 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, 2006:

2007	\$ 2,485,346
2008	2,241,771
2009	1,943,349
2010	1,588,846
2011	1,195,725
2012 and after	<u>2,846,290</u>
Total minimum payment required	<u>\$12,301,327</u>

Rental expense for all operating leases for the year ended June 30, 2006, was \$2,634,099.

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 Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

Long-term liability activity for the year ended June 30, 2006 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, 2005	\$ 9,175,000	\$ -	\$3,734,658	\$154,025	\$8,142,796
New Debt:					
HUD Section 108					
500 Block Project	-	-	3,840,000	-	-
Annual and sick pay	-	-	-	-	6,028,552
Principal payments made	<u>(2,410,000)</u>	<u>-</u>	<u>(434,078)</u>	<u>(154,025)</u>	<u>(5,339,968)</u>
Total governmental activities long-term debt	<u>6,765,000</u>	<u>-</u>	<u>7,140,580</u>	<u>-</u>	<u>8,831,380</u>

The following is a summary of Business Type long-term liability activity of the City for the year ended June 30, 2006:

	<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, 2005	2,996,030	106,098,490	396,768	5,276,146	-
New Debt:					
MI Drinking Water	-	-	-	-	-
Revolving Fund Program	-	3,650,942	-	-	-
Principal payments made	<u>(1,307,459)</u>	<u>(3,900,000)</u>	<u>(63,783)</u>	<u>(1,829,738)</u>	<u>-</u>
Total business type activities long-term debt at June 30, 2006	<u>1,688,571</u>	<u>105,849,432</u>	<u>332,985</u>	<u>3,446,408</u>	<u>-</u>
Total long-term debt - all activities June 30, 2006	<u>\$8,453,571</u>	<u>\$105,849,932</u>	<u>\$7,473,567</u>	<u>\$3,446,409</u>	<u>\$8,831,380</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

A summary of long-term liability transactions for the year ended June 30, 2006, and the composition of the June 30, 2006, long-term debt balance follows:

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Original Amount of <u>Issue</u>	Balance at June 30, <u>2005</u>	Issuances (Retirements) <u>During Year</u>
Governmental Activities:					
MEDC Economic Development loan	1/18	6%	\$ 767,837	\$ 767,837	\$ -
1993 Tax Increment Financing Authority Refunding Bonds	6/06	5.8	16,640,000	1,175,000	(1,175,000)
2004 Financial Recovery General Obligation United Tax Bonds	5/10	3-3.25	8,000,000	8,000,000	(1,235,000)
Section 108 loan	8/2016	Variable	2,624,000	2,372,000	(276,000)
Section 108 loan – 500 Block	8/07	Variable	3,840,000	-	3,840,000
Capital lease obligation	9/05	5.0	1,213,000	136,890	(163,890)
Capital lease	7/05	6.625	112,573	4,982	(4,982)
Capital lease	10/05	0.55	44,200	12,153	(12,153)
Purchase contract	9/05	5.59	659,425	74,418	(74,418)
Purchase contract	9/10	5.39	895,009	520,403	(83,660)
Accrued annual and sick pay				8,142,796	6,028,552
				<hr/>	<hr/>
				\$21,206,479	\$ 1,530,481
				<hr/>	<hr/>
Total governmental activities				<hr/>	<hr/>

Balance at June 30, <u>2006</u>	Due Within One <u>Year</u>
\$ 767,837	\$ 15,997
-	-
6,765,000	1,275,000
2,096,000	276,000
3,840,000	-
-	-
-	-
-	-
-	-
436,743	88,228
<u>8,831,380</u>	-
<u><u>\$22,736,960</u></u>	<u><u>\$1,655,225</u></u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. 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>2005</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	\$ 5,683,994	\$ (315,000)
2002 MMBA Drinking Water Revolving Fund Revenue Bonds	4/21	2.5	8,035,000	6,730,000	(345,000)
2003 MMBA Drinking Water Revolving Fund Revenue Bonds	4/22	2.5	9,480,000	7,834,581	(400,000)
2004 MMBA Drinking Water Revolving Fund Revenue Bonds	4/22	2.5	19,180,000	15,434,915	(750,000) 3,650,942
McCollum Avenue Drain Contract	5/10	5.10	1,500,000	591,030	(107,459)
Sewage Disposal	11/06	4.0-5.0	8,455,000	2,405,000	(1,200,000)
1995a Medical Center Revenue Refunding Bonds	7/07	6.0	16,445,000	2,200,000	(1,070,000)
1998a Medical Center Revenue Refunding Bonds	7/21	4.0-5.375	18,560,000	14,705,000	(615,000)
1998B Medical Center Revenue Refunding Bonds	7/29	4.0-5.375	20,570,000	18,510,000	(405,000)
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	396,768	(63,783)
Capital lease	2008	0.0	490,015	257,822	(130,984)
Capital lease	2009	4.7	8,000,000	4,238,232	(1,394,399)
Capital lease	11/07	4.5	2,549,202	756,342	(292,479)
Capital lease	2007	0.0	35,625	23,750	(11,876)
Total Business - Type Activities				<u>\$114,767,434</u>	<u>\$(3,450,038)</u>

Balance at June 30, <u>2006</u>	Due Within One <u>Year</u>
\$ 5,368,994	\$ 325,000
6,385,000	355,000
7,434,581	410,000
-	770,000
18,335,857	-
483,571	111,938
1,205,000	1,205,000
1,130,000	1,130,000
14,090,000	645,000
18,105,000	420,000
35,000,000	-
332,985	67,268
126,838	116,824
2,843,833	1,474,213
463,863	305,789
11,874	11,875
\$111,317,396	\$7,347,905

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. 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
2007	1,655,225	536,107	\$7,347,906	\$4,911,135
2008	5,583,034	365,509	6,354,312	4,522,314
2009	1,683,117	250,114	5,180,417	4,269,956
2010	1,733,478	198,838	5,314,274	4,032,072
2011	1,723,833	144,146	5,376,054	3,735,833
2012-2016	1,174,932	523,519	31,215,000	14,914,329
2017-2021	351,961	96,460	36,558,575	6,838,900
2022-2026	-	-	10,215,859	1,757,263
2027-2029	-	-	3,755,000	209,088
Total	\$13,905,580	\$2,114,693	\$111,317,398	\$45,190,890

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 March 28, 2006	<u>\$1,947,237,500</u>
Legal debt limit - (7% of assessed valuation)	\$ 136,306,625
Total Bonded Debt at June 30, 2006	\$114,303,502
Less debt not subject to limitation under City charter and state statute:	
Revenue bonds and notes	<u>105,849,932</u>
Debt subject to limitation	<u>8,453,570</u>
Unused debt limitation	<u>\$127,853,055</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 loans were obtained through 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 Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

G. Long-term debt - (continued)

Advance refundings and defeasances:

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, 2006. The outstanding balance on the 1977 revenue rental and general obligation bonds was \$1,940,000 at June 30, 2006.

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, 2006. The refunding bonds are secured by the full faith and credit of the City. The outstanding balance of the defeased bonds at June 30, 2006, is \$1,225,000.

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, 2006. The refunding bonds are secured by the full faith and credit of the City. The outstanding balance of the defeased bonds at June 30, 2006, is \$2,525,000.

Total defeased debt still outstanding at June 30, 2006:

Governmental activities	\$ 2,525,000
Business type activities	<u>3,165,000</u>
	<u>\$ 5,690,000</u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds - (continued)

H. Restricted assets

The balances of the restricted assets accounts in the governmental funds are as follows:

Federal Grants Fund:	
Mott Grant for University Park	\$ 114,056
Major Streets Fund:	
Saginaw Street Improvements	<u>3,000,000</u>
Total restricted assets in governmental funds	<u>\$3,114,056</u>

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

Hurley Medical Center:	
Equipment replacement and improvement	\$43,194,781
Self insurance	16,893,608
Revenue Bond Indenture – held by trustee	12,457,972
Children’s Miracle Network	390,113
Water Supply Fund:	
Revenue bond equipment replacement account	2,522,147
Debt service reserve	<u>2,809,861</u>
Total restricted assets in enterprise funds	<u>\$78,268,482</u>

IV. Other information

A. 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 Financial Statements
June 30, 2006

IV. Other information – (continued)

B. Retirement plans and other post-employment benefits

Detail of individual pension and benefit trust funds statements are as follows:

Assets

Pooled cash and investments	\$ -	\$ -	\$ -	\$ 273,310	\$ -
Cash and cash equivalents	58,745,851	-	20,081	-	51,562
Investments:					
U.S. government obligations	91,327,819	-	-	-	555,473
Corporate bonds	148,090,108	-	-	-	-
Partnerships	33,256,723	-	-	-	-
Corporate stocks	452,775,954	-	1,101,366	-	819,583
Receivables:					
Taxes	-	-	-	-	-
Loans	-	-	-	-	-
Accrued interest	1,571,414	-	-	-	-
Due from component unit	-	-	-	-	-
Cash and securities held as collateral for securities lending	108,193,056	-	-	-	-
Total assets	<u>893,960,925</u>	<u>-</u>	<u>1,121,447</u>	<u>273,310</u>	<u>1,426,617</u>

Liabilities

Accounts payable	477,620	-	-	273,310	-
Deposits and advances	-	-	-	-	-
Due to other governmental units	-	-	-	-	-
Due to component units	-	-	-	-	-
Due to other funds	609,867	-	-	-	-
Obligations under securities lending agreement	108,193,056	-	-	-	-
Total liabilities	<u>109,280,543</u>	<u>-</u>	<u>-</u>	<u>273,310</u>	<u>-</u>

Net Assets

Held in trust for pension benefits and other employee benefits	<u>\$ 784,680,382</u>	<u>\$ - 0 -</u>	<u>\$ 1,121,447</u>	<u>\$ - 0 -</u>	<u>\$ 1,426,617</u>
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City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information – (continued)

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

	Pension and Benefit Trust Funds				
	Flint Employee's Retirement System	Excess Pension Benefit	Death Benefit	Retiree Health Care	Health Benefits Plan and Trust
Additions					
Investment income:					
Interest	\$ 9,482,814	\$ -	\$ -	\$ -	\$ -
Dividends	2,856,407	-	38,439	-	-
Other income	360,217	33,828	-	-	-
Net increase in fair value of investments	51,821,574	-	13,413	-	-
Less investment expense	(2,546,087)	-	-	-	-
Net investment income	61,974,925	33,828	51,852	-	-
Contributions:					
Members' contributions	3,508,783	-	22,840	342,135	-
Employer contributions	6,773,153	19,053	-	15,503,285	-
Total contributions	10,281,936	19,053	22,840	15,845,420	-
Securities lending income:					
Interes and fees	5,047,173	-	-	-	-
Less borrower rebates and bank fees	(4,888,200)	-	-	-	-
Net securities lending income	158,973	-	-	-	-
Transfers in	-	-	-	-	1,426,618
Total additions	72,415,834	52,881	74,692	15,845,420	1,426,618
Deductions					
Benefit payments	64,454,031	52,881	95,500	16,159,616	-
Refunds of contributions	927,863	-	-	-	-
Administrative	495,671	-	265	134,066	-
Transfers out	-	-	1,426,618	-	-
Total deductions	65,877,565	52,881	1,522,384	16,293,682	-
Net Increase(Decrease) in Net Assets Held	6,538,269	-	(1,447,691)	(448,262)	1,426,618
Net Assets Held in Trust for Pension Benefits					
Beginning of year	778,142,113	-	2,569,138	448,262	-
End of year	\$ 784,680,382	\$ - 0 -	\$ 1,121,447	\$ - 0 -	\$ 1,426,618

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information – (continued)

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

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. The City Council has the authority to amend the benefits offered. 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.

Membership in the plan at June 30, 2004, the date of the latest actuarial valuation, was comprised of 3,032 active plan members 309 inactive vested members and 3,016 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 2.9% to 5.5%. 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 Financial Statements
June 30, 2006

IV. Other information - (continued)

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

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

The City forwarded \$1,861,817 of pension contributions withheld from employees during the year ended June 30, 2006. During 2006, employer contributions rates ranged from 0% to 32.13% of covered payroll. The employer contributions funded retirement benefits, life insurance benefits, and the administration of the retirement system.

Actuarial assumptions:

Valuation date	June 30, 2004
Actuarial cost method	Hurley – individual entry age City – individual entry age
Amortization method	Level percent
Remaining amortization period	30 years (closed) – General, Fire and Hurley 10 years (closed) – 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>
6/30/04	12/31/01	\$ 6,226,037	100%	\$ -
6/30/05	12/31/02	14,805,710	100	-
6/30/06	12/31/03	15,738,992	43	7,790,552

During the fiscal year ended June 30, 2004, 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. As of June 30, 2006, no transfers of pension funds have been made from the City of Flint PERS to MERS. A contribution of \$1,175,287 was made to MERS by the Medical Center during the year ended June 30, 2006. Employer contribution rates of the MERS plan are expected not to be greater than those of the City of Flint PERS. The net pension obligation at June 30, 2006 consists solely of amounts owed by Hurley Medical Center.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

B. 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, 2006, is 15 members. The City intends to pay retirement benefits as they become due from future years' General Fund revenue. The City's contribution to the plan for the year ended June 30, 2006, was \$229,636 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, 2006 were \$-0-.

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

The City has made available to appointed and elected 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, 2006, were \$218,450, 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, 2006, were \$47,129,693 and \$866,378 respectively.

On January 1, 2002, a new plan was adopted for appointed and elected officials. The City contributes 11% of employees' gross earnings and employees have a mandatory 4% contribution. Employee accounts are fully vested after 5 years of service. The current year contribution was calculated based on covered payroll of \$597,944 resulting in an employer contribution of \$68,196 and employee contribution of \$28,148.

4. Defined contribution retirement plans:

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, are not eligible to participate in the 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 \$47,129,693. The current year contribution was calculated based on covered payroll of \$2,008,933 resulting in an employer contribution of \$200,260 and employee contribution of \$102,722.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

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

4. Defined contribution retirement plan: - (continued)

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 11% to 14.5% of employees' gross earnings and employee mandatory contributions of 4% to 5.5% for each employee plus interest allocated to the employee's account are fully vested after 5 years of service.

The City's total payroll during the current year was \$47,129,693. The current year contribution was calculated based on covered payroll of \$307,394, resulting in an employer contribution of \$33,813 and employee contributions of \$13,519.

The Medical Center has a defined contribution plan for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5% of the employee's annual contribution. Each employee's interest is vested as specified in the plan. Pension expense included in the statements was \$644,566 for the year ended June 30, 2006.

5. Profit Sharing and 403(b) Plan

Hurley Health Services (HHS), a component unit of Hurley Medical Center, has a qualified 401(k) profit sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to 15% of their salary. HHS may make a discretionary contribution. HHS's contribution to the 401(k) plan was \$45,919 for the year ended June 30, 2006. HHS also maintains two tax deferred annuity plans under section 403(b) of the Internal Revenue codes. Under the plans, HHS and THC employees may elect to defer up to a percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS's contribution to the 403(b) plan amounted to \$335,680 for the year ended June 30, 2006.

6. 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.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

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

6. Excess Benefits Pension Plan: - (continued)

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, 2006, employer contributions of \$52,881 were made to the plan and benefits of \$52,881 were paid out.

The City has not requested an actuarial valuation of the plan because of 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, 2006 were \$-0-.

7. 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.

As of year end, there were 687 retirees who were eligible for this benefit. Employee and employer contributions for the year ended June 30, 2006, were both \$22,840. Net assets available for benefits, reported at fair value were \$1,258,500 at year end. No actuarial valuation has been performed to determine the present value of vested benefits. During 2006, death benefits of \$95,500 were paid.

8. Health Benefits Plan and Trust

The City established the City of Flint Retiree Health Benefits Plan and Trust for the purpose of providing health insurance benefits adopted by the City or approved by collective bargaining agreements for retirees eligible to receive retirement benefits from the City of Flint Employee's Retirement System. The plan is constituted a "voluntary employee's beneficiary association" (VEBA) under section 501(c)(9) of the Internal Revenue Code of 1986. Beginning July 1, 2006, employees of AFSCME local 1600 and 1799 shall be required to contribute 15% of their pre tax compensation. Net assets available for benefits reported at fair value were \$1,426,618 at year end. During 2006, no benefits were paid.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

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

9. 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 \$156 to \$1,787 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 \$5,942,485 in the year ended June 30, 2006. The number of participants eligible to receive benefits were 667 in the year ended June 30, 2006. 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, 2006, the City paid out \$16,159,616 in retiree health care costs. As of year end, 1,720 retirees were eligible to receive these health care benefits.

C. Building department fund revenue 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 revenue. The activity related to construction code activity for the year ended June 30, 2006 is as follows:

Shortfall at July 1, 2005	\$(1,080,525)
Revenue:	
Building permits	1,412,468
Federal revenue	1,674,122
Charges for services	545,695
Other revenue	2,937
Expenditures	<u>(4,669,425)</u>
Cumulative shortfall at June 30, 2006	<u><u>\$(2,114,728)</u></u>

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

D. 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.

E. 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, 2006 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, 2006 was not material.

The City pays unemployment claims on a reimbursement basis.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

E. 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, 2006, the City paid out \$5,063,432 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 \$19,879,807 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, 2006 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, 2006, there were 1,720 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>2006</u>	<u>2005</u>
Estimated liability, beginning of year	\$3,683,443	\$3,645,022
Estimated claims incurred, including changes in estimates	1,290,960	854,066
Claims payments	<u>(1,290,960)</u>	<u>(815,645)</u>
Estimated liability, end of year	<u>\$3,683,443</u>	<u>\$3,683,443</u>

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

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

E. Risk management – (continued)

Hurley Medical Center Enterprise Fund:

Hurley Medical Center is self insured for all general liabilities claims including 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 \$32,996,608 June 30, 2006.

The following represents the change in the aggregate liabilities for claims and defense costs payable for the years ended June 30, 2006 and 2005.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Balance - beginning of year	\$25,242,445	\$22,545,354
Claims paid	(2,938,750)	(8,619,433)
Defense costs and other fund expenses	(1,461,412)	(2,155,973)
Excess insurance premium payments	(1,652,230)	(1,821,833)
Increase in claims liability	<u>13,806,555</u>	<u>15,294,330</u>
Balance - end of year	<u>\$32,996,608</u>	<u>\$25,242,445</u>
Insurance Trust assets (at market) - end of year	<u>\$12,510,868</u>	<u>\$ 3,603,534</u>

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, 2006 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 Financial Statements
June 30, 2006

IV. Other information - (continued)

E. 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. Settled claims for the commercial insurance have net exceeded the amount of coverage in any of the past three years. There were no reductions in coverage during the current year.

The Flint Area Enterprise Community is exposed to various risks of loss related to property loss, torts, and errors and omissions. The FAEC has purchased commercial insurance coverage through various policies for general liability on all FAEC-owned property and workmen's compensation. Settled claims for the commercial insurance have net exceeded the amount of coverage in any of the past three years. There were no reductions in coverage during the current year.

F. Commitments

As of June 30, 2006, Hurley Practice Management Services (HPMS) is contingently liable as guarantor with respect to 50% of \$5,447,660 of indebtedness of Hurley/Binson's Medical Equipment, Inc. HPMS owns 50% of Hurley/Binson's Medical Equipment, Inc. The book value of the investment was \$1,140,309 at June 30, 2006. No material loss is anticipated by reason of such guarantee. There are no recourse rights in the event of default by Hurley/Binson's Medical Equipment, Inc.

The future minimum payments related to the above are:

2007	\$ 4,226,717
2008	468,132
2009	234,762
2010	127,400
2011	<u>390,649</u>
Total future minimum payments	<u><u>\$ 5,447,660</u></u>

Subsequent to year end, in September 2006, Hurley/Binson's Medical Equipment, Inc. obtained additional funds from the bank increasing the mortgage note on their building to \$1,260,000. This is an increase of debt to the bank of approximately \$620,000, of which HPMS guarantees 50%.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

G. Related party transactions

The Medical Center provides services to one of its joint ventures, HGH, Inc. As of June 30, 2006, the net settlement receivable from HGH, Inc. was \$3,390,139 and is included in patient accounts receivable on the balance sheet. The net patient revenue recorded from HGH, Inc. was \$14,402,873 for the year ended June 30, 2006.

Included in other operating revenues of HHS are management fees and marketing fees for services rendered paid by Hurley/Binson's Medical Equipment, Inc., a related party to HPMS. Management fee and marketing income from Hurley/Binson's Medical Equipment, Inc. for the year ended June 30, 2006 amounted to \$84,000. There were accounts receivable of \$105,000 from Hurley/Binson's Medical Equipment at June 30, 2006. HPMS and HHS purchase courier services from Hurley/Binson's Medical Equipment, Inc. in the amount of \$240,000 annually.

H. 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.

I. Interest rate swap

During 2005, the Medical Center entered into an interest rate swap agreement with a swap provider. At June 30, 2006, the notional principal amount of the Medical Center's portion of the outstanding interest rate swap agreement was \$35 million. The agreement effectively changes the Medical Center's interest rate exposure on \$35 million of fixed percent bonds due July 1, 2008 and July 1, 2020 to a variable rate. The interest rate swap agreement matures on July 1, 2011. Unrealized losses on the swap agreement of \$1,905,149, as of June 30, 2006, have not been recorded in accordance with governmental accounting standards.

J. Subsequent events

On October 23, 2006, the City Council approved a construction agreement with Sorensen Gross for improvements to the sewer disposal system incinerator feed for \$1,752,977.

Subsequent to year end, the City entered into a loan and contract with MDOT for the Flushing Road improvement project in the amount of \$2,160,477 and also into a contract with MDOT for the Flushing Road water main project in the amount of \$1,758,500.

City of Flint, Michigan
Notes to Financial Statements
June 30, 2006

IV. Other information - (continued)

J. Subsequent events - (continued)

Also, subsequent to year end, the City Council approved a long term advance from the Sewer Disposal Division Fund to the Central Maintenance Garage for the purchase of six street sweepers in the amount of \$618,800, financed for 7 years at 5.5% interest.

K. 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, 2008. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.