



## **CITY OF FLINT**

### **Department of Finance**

**Donald J. Williamson**  
Mayor

**Peter Dobrzeniecki**  
Director of Finance

December, 2006

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement we hereby issue the comprehensive annual financial report of the City of Flint for the fiscal year ended June 30, 2006

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

Plante & Moran, PLLC, a firm of licensed certified public accountants has audited the City of Flint's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flint for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flint's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

## **Profile of the Government**

The City of Flint, incorporated in 1855, is located in the eastern part of the State of Michigan. The City currently occupies a land area of 32.8 square miles and serves a population of 118,551. The City is empowered to levy a property tax on both real and personal properties located within its boundaries, as well as a 1% income tax for those who live within the City limits (or .5% for those who only work within the City limits).

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

On January 20, 2006, Governor Jennifer Granholm signed an executive order that revoked the declared financial emergency in the City of Flint. The Governor's order was based upon recommendations from the State Treasurer Jay Rising and the Local Emergency Financial Assistance Loan Board. The City of Flint has gone from a General Fund deficit of \$26.3 million to a surplus of \$8.9 million in five years. During the fiscal year 2006 the City has been able to make substantial capital improvements while remaining financially responsible, including \$3.2 million for new garbage trucks and \$2.6 million for new police and DPW vehicles. The City paved 51.39 miles of streets at a cost of \$13.6 million and demolished 350 abandoned homes at a cost of \$2.3 million.

The City of Flint provides a full range of services, including police and fire protection, the construction and maintenance of streets, and other infrastructures, recreational activities and cultural events, water and sewer services, and sanitation/garbage pickup services. The Board of Hospital Managers has the exclusive authority to manage and operate Hurley Hospital. The Flint Downtown Development Authority Board promotes the rehabilitation of the downtown area. The City of Flint Economic Development Corporation provides financing and development opportunities for businesses located in the City of Flint. The Flint Area Enterprise Community works with community partners to coordinate the federal enterprise community plan and help leverage resources for the zone.

The annual budget serves as the foundation for the City of Flint's financial planning and control. Under the normal governance scenario, as outlined above, all departments and agencies of the City of Flint are required to submit requests for appropriations to the Mayor's appointed Budget Director in March each year. The Budget Director uses these requests as the starting point for developing a proposed budget. The Mayor then presents this proposed budget to the City Council on the first Monday in May. The Council is required to hold public hearings on the proposed budget and to adopt a final budget, by charter, on the first Monday in June. The City's fiscal year ends on June 30. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments or funds, however, would require the special approval of the

City Council. Budget-to-actual comparisons are provided in this report for each major governmental fund for which an appropriated annual budget has been adopted. The comparison is presented in the required supplementary information subsection of this report.

### **Factors Affecting Economic and Financial Condition**

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

*Local Economy.* The Flint metropolitan area unemployment rate increased by 1.5% to 9.2% at mid-year 2006. The City of Flint's economy is tied to the automobile industry but has diversified over the last ten years. Property value for Flint's ten largest employers declined in 2006 to \$474.6 million compared to \$664.2 million for Flint's ten largest employers in 1997. Yet over-all property values have increased from \$1.563 billion in 1997 to \$1.947 billion in 2006.

*Cash management policies and practices.* Safety of principal is the foremost objective of the City of Flint. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities. The surplus funds of the City of Flint were invested in accordance with Act 20 of the Public Acts of 1943, as amended, and the City's Code of Ordinances. These funds were invested in obligations of the U.S. Treasury, certificates of deposit, commercial paper and investment pools. The maturity dates of the investments range from one day to five years, with an average maturity of 298 days. The yield on investments improved during the fiscal year, paying 4.57% as of June 30, 2006 compared to 3.26% as of June 30, 2005.

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

The Workers' Compensation function resides in the Risk Management department, which allows for a coordinated effort to minimize accident-related losses. The Risk Management department has a Security/Fraud Manager to complement the already-existing efforts undertaken to control fraudulent exposures. Additional information on the City of Flint's risk management activities can be found in Section IV.E. of the Notes of the June 30, 2006 Audited Financial Statements.

*Pension and other post-employment benefits.* The City of Flint sponsors a single-employer defined benefit plan for its public safety and non-public safety employees. Each year, an independent actuary engaged by the pension system calculates the amount of the annual contribution that the City of Flint must make to the pension system to ensure that the plan will be able to fully meet its obligations to retired employees. The City of Flint makes monthly contributions to the system in accordance with the contribution rate determined by the independent actuary. As a result of the City of Flint's funding activities, the overall retirement system as of June 30, 2004 was 80.5% funded.

The City of Flint also provides post-retirement health and vision care benefits for retirees and their dependents. As of the end of the current fiscal year, there were 3,063 retired employees receiving these benefits, of which 1,330 retired from Hurley Hospital. The benefits are financed on a pay-as-you-go basis. Additional information on the City of Flint's Retirement Plan can be found in Section IV.B. of the Notes of the June 30, 2006 Audited Financial Statements. GAAP did not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits as of June 30, 2006. However, GAAP will require 1/30th of the liability for post-retirement health and vision care benefits to be recorded for the fiscal year ending June 30, 2007.

## **Awards and Acknowledgements**

We are pleased to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flint for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. The City has now received the award four years in a row. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006, continues to meet the Certificate of Achievement Program's requirements and we are submitting our report to the GFOA to determine its eligibility for another certificate.

We are also pleased to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Distinguished Budget Presentation Award to the City of Flint for fiscal year 2006. The Budget Awards Program is designed to encourage governments to prepare budget documents of the highest quality to meet the needs of decision-makers and citizens. Since the program was first established in 1984, participation has grown from 113 to 1,108.

The Distinguished Budget Presentation Award is valid for a period of one year only. We believe that the Annual Adopted Budget for fiscal year 2007 continues to meet the Budget Award Program requirements and we have submitted our budget to the GFOA to determine its eligibility for another award.

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

Respectfully submitted,

Peter Dobrzeniecki  
Director of Finance