

City of Pontiac
General Employees' Retirement System

Financial Report
with Required Supplemental Information
December 31, 2008

City of Pontiac General Employees' Retirement System

Contents

Report Letter	1
Management's Discussion and Analysis	2-3
Basic Financial Statements	
Statement of Plan Net Assets	4
Statement of Changes in Plan Net Assets	5
Notes to Financial Statements	6-10
Required Supplemental Information	11
Schedule of Analysis of Funding Progress	12
Schedule of Employer Contributions	13

Independent Auditor's Report

To the Retirement Board
City of Pontiac General Employees'
Retirement System

We have audited the accompanying statement of plan net assets of City of Pontiac General Employees' Retirement System (a component unit of the City of Pontiac, Michigan) as of December 31, 2008 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the General Employees' Retirement Board of the City of Pontiac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Pontiac General Employees' Retirement System as of December 31, 2008 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 24, 2009

City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2008	2007
Total assets	\$ 391,908,783	\$ 582,909,697
Total liabilities:		
Amounts due broker under securities lending agreement	55,195,306	94,224,009
Other liabilities	723,931	780,092
Total liabilities	<u>55,919,237</u>	<u>95,004,101</u>
Assets held in trust for pension benefits	<u>\$ 335,989,546</u>	<u>\$ 487,905,596</u>
Net investment (loss) gain	\$ (132,550,151)	\$ 36,908,861
Net securities lending income	456,911	186,092
Contributions:		
Employee - Reinstated members	-	5,869
Employer	-	-
Other - Miscellaneous and litigation revenue	168,879	592,943
Retiree pension and annuity benefits	(19,436,881)	(18,877,391)
Benefits paid in excess of contributions	(19,436,881)	(18,871,522)
General and administrative expenses	(554,808)	(497,302)
Net (decrease) increase in net assets held in trust	(151,916,050)	18,319,072

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Pontiac General Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The System has established asset allocation policies which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the adopted asset allocation as of December 31, 2008:

Domestic equities	50%
International equities	8%
Domestic fixed income	28%
Real estate	2%
Private equity	6%
Cash	6%

Investment Results

In 2008, defaulting sub-prime mortgages triggered a global credit crisis in the summer of 2008. In the aftermath, the equity markets declined, giving back all of the gains garnered in the first six months. Treasuries rallied as investors sought the safety of guaranteed bonds. The domestic equity market declined as compared to last year. The S&P 500 ended the year down 37.0 percent. The fixed income market, as measured by the Barclays Aggregate Index, returned 5.2 percent for the year. The international index, MSCI EAFE, was down 53.3 percent for the year. The total fund returned -24.5 percent for the year.

The System's total fund return must always be considered in a longer-term context. The asset allocation of each fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

City of Pontiac

General Employees' Retirement System

Statement of Plan Net Assets December 31, 2008

Assets

Cash (Note 3)	\$ 104,952
Cash and investments held as collateral for securities lending (Note 3)	54,083,586
Accrued interest and dividends receivable	1,672,446
Accounts receivable - Due from GERS VEBA	93,368
Investments at fair value - Including loaned securities (Note 3):	
Money market funds	19,813,055
U.S. government agency notes and debentures	6,841,959
High yield bonds	14,622,911
Corporate and other bonds	21,946,857
Equities	201,802,151
U.S. government agency mortgage pools	54,358,322
Commercial mortgage pools	3,293,656
Asset-backed securities	3,371,630
Other	<u>9,903,890</u>
Total investments	<u>335,954,431</u>
Total assets	391,908,783

Liabilities

Due to City of Pontiac	65,187
Due to City of Pontiac Police and Fire Retirement System	3,711
Accounts payable	655,033
Amounts due broker under securities lending agreement (Note 3)	<u>55,195,306</u>
Total liabilities	<u>55,919,237</u>

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 335,989,546

City of Pontiac

General Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2008

Additions

Miscellaneous and litigation revenue	\$	168,879
Securities lending income:		
Interest and fees		2,704,008
Less borrower rebates and bank fees		<u>(2,247,097)</u>
Net securities lending income		456,911

Deductions

Investment (loss) income:		
Interest and dividend income		11,439,442
Net decline in fair value		(141,306,582)
Investment advisor fees		<u>(2,683,011)</u>
Net investment loss		(132,550,151)
Other deductions:		
Retirees' pension benefits and retirement incentives		(19,436,881)
Other expenses		(288,466)
Charges from the City of Pontiac - Administrative expenses		<u>(266,342)</u>
Total deductions		<u>(152,541,840)</u>

Net Decrease in Net Assets Held in Trust for Pension Benefits (151,916,050)

Net Assets Held in Trust for Pension Benefits - January 1, 2008 487,905,596

Net Assets Held in Trust for Pension Benefits - December 31, 2008 \$ 335,989,546

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2008

Note 1 - Summary of Significant Accounting Policies

The City of Pontiac (the "City") sponsors and administers the General Employees' Retirement System (the "System") (a contributory single-employer retirement plan) that covers substantially all employees of the City, except police and fire employees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City as a Pension Trust Fund. The assets of the Pension Trust Fund include no securities of or loans to the City or any other related party.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals or audited financial statements.

Note 2 - Plan Description and Contribution Information

At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving pension benefits and terminated employees entitled to benefits but not yet receiving them	1,344
Current employees:	
Fully vested	155
Nonvested	140
Total current employees	295

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2008

Note 2 - Plan Description and Contribution Information (Continued)

Plan Description - The System provides retirement benefits, as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by city ordinance and negotiation with the employees' collective bargaining units.

Contributions - Plan members are not required to contribute. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not make a contribution to the plan in the current year. Administrative costs are financed through investment earnings.

Note 3 - 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 System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is 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 System has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority. The System's cash and investments are subject to several types of risk, which are examined in more detail below:

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2008

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System continues to evaluate each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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 System's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Effective Duration
Asset-backed securities	\$ 3,074,629	1.76 years
Asset-backed securities	297,002	Unavailable
Commercial mortgage pools	3,293,656	3.45 years
Corporate and other bonds	36,545,219	4.17 years
Corporate and other bonds	24,549	Unavailable
U.S. governmental agency mortgage pools:		
Government agencies	11,617,012	5.92 years
Government bonds	6,841,959	11.69 years
Government mortgage-backed securities	30,165,007	2.97 years
Government mortgage-backed securities	12,576,303	Unavailable
Other	403,090	1.86 years
Other	9,500,800	Unavailable
Money market funds	18,860,671	Unavailable

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities to not less than a CCC rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's AI or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment Type	Fair Market Value	Moody's Rating
Asset-backed securities	\$ 2,045,180	Aaa
Asset-backed securities	1,183,328	Aa
Asset-backed securities	142,123	Baa
Commercial mortgage pools	3,291,806	Aaa
Commercial mortgage pools	1,851	Unrated
Corporate bonds	577,428	Aaa
Corporate bonds	4,854,712	Aa
Corporate bonds	9,823,546	A
Corporate bonds	4,893,804	Baa
Corporate bonds	6,562,988	B
Corporate bonds	5,558,652	Caa
Corporate bonds	84,000	Ca
Corporate bonds	174,500	C
Corporate bonds	4,040,139	Unrated
U.S. governmental agency mortgage pools	11,617,012	Aaa
U.S. governmental agency mortgage pools	185,201	Unrated
Other	11,037,979	Unrated
Other	2,265,266	Aaa
Money market funds	18,860,671	Unrated

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2008

Note 3 - Deposits and Investments (Continued)

Securities Lending

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 as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2008, only United States currency was received as collateral.

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; however, losses resulted due to fair market value decline of the collateral held.

The General Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2008 was 18 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2008, the System had no credit risk exposure to borrowers. The fair market value of the collateral held and the underlying securities on loan for the System as of December 31, 2008 were \$54,083,586 and \$54,463,962, respectively.

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2008, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 2,661,860
Reserved for retired employees	197,036,753

Required Supplemental Information

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/02*	\$ 393,214,033	\$ 235,422,367	\$ (157,791,666)	167.0	\$ 20,039,136	-
12/31/03	394,367,065	247,396,857	(146,970,208)	159.4	20,807,612	-
12/31/04	394,807,254	258,365,787	(136,441,467)	152.8	21,320,477	-
12/31/05	391,409,757	260,103,260	(131,306,497)	150.5	16,751,815	-
12/31/06	409,983,490	266,457,429	(143,526,061)	153.9	14,996,753	-
12/31/07	433,028,186	257,940,349	(175,087,837)	167.9	13,559,473	-

* Plan amended

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 10,608	100.0
2004	2,767	392.9
2005	16,926	100.0
2006	15,695	100.0
2007	-	100.0
2008	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age actuarial cost
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.6% to 9.4%
Cost of living adjustments	2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group
*Includes inflation at	4.5%