

City of Pontiac
General Employees' Retirement System

Financial Report
with Required Supplemental Information
December 31, 2009

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	6-11
Required Supplemental Information	12
Schedule of Analysis of Funding Progress	13
Schedule of Employer Contributions	14



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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 the City of Pontiac General Employees' Retirement System (a component unit of the City of Pontiac, Michigan) as of December 31, 2009 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 the City of Pontiac General Employees' Retirement System as of December 31, 2009 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 15, 2010

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:

	2009	2008
Total assets	\$ 471,062,288	\$ 391,908,783
Total liabilities:		
Amounts due broker under securities lending agreement	84,041,640	55,195,306
Other liabilities	773,068	723,931
Total liabilities	<u>84,814,708</u>	<u>55,919,237</u>
Assets held in trust for pension benefits	<u>\$ 386,247,580</u>	<u>\$ 335,989,546</u>
Net investment income (loss)	\$ 70,467,960	\$ (132,550,151)
Net securities lending (loss) income	(5,818)	456,911
Other - Miscellaneous and litigation revenue	328,606	168,879
Retiree pension and annuity benefits	(19,992,272)	(19,436,881)
Benefits paid in excess of contributions	(19,992,272)	(19,436,881)
General and administrative expenses	(540,442)	(554,808)
Net increase (decrease) in net assets held in trust	50,258,034	(151,916,050)

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 that 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, 2009:

Domestic equities	55%
International equities	10%
Domestic fixed income	25%
Private equity	5%
Real estate	5%

Investment Results

In 2009, the markets came roaring back. The economic stimulus efforts and liquidity programs initiated by the government and central banks gave investors confidence that the financial crisis was under control and that the global economy would recover from the recession. The transition in equities occurred in March; after struggling in January and February, the markets posted strong gains over the next 10 months. The S&P 500 ended the year up 26.5 percent and the MSCI EAFE Index gained 31.8 percent. Corporate bonds also benefited from investors' appetites for risk, the Barclays Credit Index was up 16.1 percent, and the Barclays High Yield Index was up 58.2 percent. Treasuries underperformed in 2009; the Barclays Government Index lost 2.2 percent. The total fund gained 24.0 percent for the year ended December 31, 2009.

The fund's total return must always be considered in a longer-term context. The fund's investment horizon is long term, corresponding to the long-term nature of the System's liabilities. Therefore, the board of trustees established an asset allocation policy to control risks and generate expected returns that will enable the fund to pay the benefits promised to members and retirees. 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, 2009

Assets

Cash (Note 3)	\$ 100,210
Cash and investments held as collateral for securities lending (Note 3)	83,824,872
Accrued interest and dividends receivable	1,451,943
Accounts receivable - Due from GERS VEBA	110,225
Investments at fair value - Including loaned securities (Note 3):	
Money market funds	17,358,440
U.S. government agency notes and debentures	21,011,469
High yield bonds	26,396,005
Corporate and other bonds	20,202,955
Equities	255,458,612
Private equities	3,732,609
U.S. government mortgage-backed securities	24,319,609
Commercial mortgage pools	3,588,241
Asset-backed securities	8,043,956
Index-linked government bonds	4,575,689
Other	<u>887,453</u>
Total investments	<u>385,575,038</u>
Total assets	471,062,288

Liabilities

Due to City of Pontiac	76,022
Due to City of Pontiac Police and Fire Retirement System	2,742
Accounts payable	694,304
Amounts due broker under securities lending agreement (Note 3)	<u>84,041,640</u>
Total liabilities	<u>84,814,708</u>

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

\$ 386,247,580

City of Pontiac

General Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2009

Additions

Miscellaneous and litigation revenue	\$ 328,606
Securities lending income (loss):	
Interest and fees	312,228
Less borrower rebates and bank fees	(101,278)
Less fair value decline on collateral held	<u>(216,768)</u>
Net securities lending loss	(5,818)
Investment income:	
Interest and dividend income	9,564,855
Net appreciation in fair value	63,464,757
Investment advisor fees	<u>(2,561,652)</u>
Net investment income	<u>70,467,960</u>
Total additions	70,462,142

Deductions

Retirees' pension benefits and retirement incentives	(19,992,272)
Other expenses	(254,561)
Charges from the City of Pontiac - Administrative expenses	<u>(285,881)</u>
Total deductions	<u>(20,532,714)</u>

Net Increase in Net Assets Held in Trust for Pension Benefits 50,258,034

Net Assets Held in Trust for Pension Benefits - January 1, 2009 335,989,546

Net Assets Held in Trust for Pension Benefits - December 31, 2009 \$ 386,247,580

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements December 31, 2009

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. Investments that do not have an established market value are reported based at estimated fair values. These estimates are determined using financial statements issued by the private equity companies in which such investments are held, adjusted by management as deemed appropriate based on known circumstances.

Note 2 - Plan Description and Contribution Information

At December 31, 2008, 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	<u>1,311</u>
Current employees:	
Fully vested	129
Nonvested	<u>157</u>
Total current employees	<u>286</u>

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements December 31, 2009

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.

Annual Pension Costs - The annual contribution for the year ended December 31, 2009 was \$0. The annual contribution for the plan year was determined as part of actuarial valuations at December 31, 2006 and December 31, 2007 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional salary increases of 1.1 percent to 4.9 percent per year based on merit and/or longevity, (d) cost of living adjustments ranging from 2.0 percent to 2.5 percent per year, and (e) inflation of 4.5 percent. Both (a) and (b) are determined by using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level of percent of payroll on an open basis. The remaining amortization period is 30 years.

Per the actuarial report dated December 31, 2008, all assumptions have remained consistent.

Funded Status and Funding Progress - As of December 31, 2008, the most recent actuarial valuation date, the plan was 159.3 percent funded. The actuarial accrued liability for benefits was \$261,497,756 and the actuarial value of assets was \$416,678,512, resulting in actuarial accrued assets of \$155,180,756. The covered payroll (annual payroll for active employees covered by the plan) was \$14,414,481 and the ratio for the unfunded AAL to the covered payroll was 0 percent given the funded status.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements December 31, 2009

Note 2 - Plan Description and Contribution Information (Continued)

Three-year trend information as of December 31 is as follows:

	Fiscal Year Ended December 31		
	2007	2008	2009
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

See Note 4 for disclosures of required reserves.

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, 2009

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	\$ 7,258,941	1.33 years
Asset-backed securities	785,015	Unavailable
Commercial mortgage pools	3,588,241	4.00 years
Corporate and other bonds	44,667,219	4.47 years
Corporate and other bonds	1,931,741	Unavailable
U.S. governmental investments:		
Government agencies	9,732,658	3.16 years
Government bonds	10,956,458	7.17 years
Government bonds	4,575,689	7.45 years
Government bonds	322,354	11.19 years
Government mortgage-backed securities	15,524,901	3.27 years
Government mortgage-backed securities	8,794,707	Unavailable
Other fixed income	466,796	1.86 years
Other fixed income	27,683	Unavailable
Other	295,428	1.51 years
Other	99,370	Unavailable
Money market funds	17,545,573	Unavailable

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements December 31, 2009

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	\$ 4,484,685	Aaa
Asset-backed securities	1,508,032	Aa
Asset-backed securities	329,536	A
Asset-backed securities	188,743	Baa
Asset-backed securities	418,903	Ba
Asset-backed securities	1,114,057	Unrated
Commercial mortgage-backed securities	2,842,595	Aaa
Commercial mortgage-backed securities	745,646	Unrated
Corporate bonds	535,989	Aaa
Corporate bonds	3,668,429	Aa
Corporate bonds	10,302,540	A
Corporate bonds	11,620,920	Baa
Corporate bonds	1,744,774	Ba
Corporate bonds	8,091,946	B
Corporate bonds	8,609,754	Caa
Corporate bonds	389,500	Ca
Corporate bonds	598,612	C
Corporate bonds	1,036,496	Unrated
U.S. governmental agencies	9,732,658	Aaa
U.S. governmental agency mortgage-backed securities	141,352	Unrated
Other	605,790	Aaa
Other	322,354	Aa
Other	283,487	Unrated
Money market funds	17,545,573	Unrated

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2009

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, 2009, 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, 2009 was 41 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, 2009, 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, 2009 were \$83,824,872 and \$81,502,653, 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, 2009, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 2,319,990
Reserved for retired employees	197,952,614

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
12/31/03	\$ 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	-
12/31/08	416,678,512	261,497,756	(155,180,756)	159.3	14,414,481	-

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended <u>December 31</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2004	\$ 2,767	392.9
2005	16,926	100.0
2006	15,695	100.0
2007	-	100.0
2008	-	100.0
2009	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2008, 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%



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

June 15, 2010

Mr. Charlie Harrison III, Chairman
c/o Ms. Ellen Zimmerman
City of Pontiac General Employees' Retirement System
47450 Woodward Ave.
Pontiac, MI 48342

Dear Mr. Harrison:

Enclosed are your annual financial reports and management letters for the year ended December 31, 2009.

Thank you for the opportunity to serve as your auditors. Please contact us if you have any questions.

Very truly yours,

Plante & Moran, PLLC

Enclosures