

City of Pontiac General Employees' Retirement System

**Financial Report
with Supplemental Information
December 31, 2014**

City of Pontiac General Employees' Retirement System

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statement of plan net position and the related statement of changes in plan net position of the City of Pontiac General Employees' Retirement System (the "System"), a component unit of the City of Pontiac, as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the City of Pontiac General Employees' Retirement System as of December 31, 2014 and the changes in plan net position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in 2014, the System adopted new accounting guidance GASB Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

June 12, 2015

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:

	2014	2013
Total assets	\$ 492,645,505	\$ 491,518,785
Total liabilities	918,710	1,045,898
Net position held in trust for pension benefits	<u>\$ 491,726,795</u>	<u>\$ 490,472,887</u>
Net investment income	\$ 29,515,688	\$ 91,812,641
Other - Miscellaneous and litigation revenue	17,453	-
Retiree pension and annuity benefits	(27,494,450)	(23,946,914)
General and administrative expenses	<u>(784,783)</u>	<u>(921,629)</u>
Net increase in net position held in trust	<u>\$ 1,253,908</u>	<u>\$ 66,944,098</u>

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.

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis (Continued)

GASB Statement No. 67 Implementation

As of January 1, 2014, the System was required to adopt Governmental Accounting Standards Board GASB Statement No. 67, *Financial Reporting for Pension Plans*, which significantly revises existing guidance for the financial reports of most governmental pension plans.

GASB Statement No. 67 introduces significant changes to the timing and manner in which the actuarial valuation is performed, including changes to how the discount rate is calculated for accounting purposes. In addition, significant new note disclosures and required supplemental information schedules are now required.

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 (excluding the collateral pool) as of December 31, 2014:

Domestic equities	55%
Domestic fixed income	20%
International equities	15%
Basket Clause Category Securities	10%
Cash	0%

Investment Results

In December 2013, the Federal Reserve began to 'taper' its extraordinary bond-buying program and made its last asset purchase in October 2014. This program - known as quantitative easing or QE - was intended to provide a boost to economic growth. However, with weak year-over-year economic growth - 2.2 percent for 2013 and an estimated 2.4 percent for 2014 - and inflation stubbornly below their target of 2 percent, the Federal Reserve has continued to provide support to the economy by keeping its interest rate near zero. Inflation expectations could be reduced further by the 40 percent decline in the price of oil that occurred in 2014. In spite of this, the dollar strengthened against all major foreign currencies as investors still expect a rise in U.S. interest rates sometime in the third or fourth quarter of 2015.

The fixed-income markets posted positive returns for the year; the Barclay's U.S. Aggregate Index returned 5.97 percent for the year. The Standard & Poor's 500 returned 13.69 percent and the MSCI EAFE Index (a proxy for international stocks) was down (4.9) percent. The total plan returned 6.44 percent for the year.

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis (Continued)

Plan Sponsor Financial Condition/Plan Update

The City of Pontiac (the plan sponsor) is experiencing significant financial difficulty. The City was placed in receivership under Michigan Public Act 436 of 2012. The receivership ended in mid-2013 and an administrator (overseen by the Transition Advisory Board) was appointed to supervise the City until such time as fiscal authority is returned to the City's elected officials. The effects of the 2013 mayoral and council elections on the City's finances should be minimal as a result. The System is currently overfunded and no employer contributions are required at this time. Should a contribution be required in the future, there is uncertainty regarding the City's ability and intent to make contributions to the System.

Contacting the System's Management

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's office at 2201 Auburn Road, Suite B, Auburn Hills, MI 48326.

City of Pontiac General Employees' Retirement System

Statement of Plan Net Position December 31, 2014

Assets

Cash and cash equivalents (Note 4)	\$	183
Investments at fair value (Note 4):		
Short-term investments		25,237,699
Government agency notes and debentures		31,846,929
Corporate and other bonds		17,667,956
Domestic equities		274,924,384
Private equity		12,624,692
U.S. government mortgage-backed securities		11,985,595
Foreign equities		38,133,443
Foreign bonds		6,601,174
High-yield bonds		18,586,437
Commercial mortgage pools		6,435,995
Asset-backed securities		7,767,336
Limited partnerships		38,679,527
Receivables:		
Accrued interest receivable		1,441,509
Other receivables		712,646
		<hr/>
Total assets		492,645,505
Liabilities - Accounts payable and other		<hr/> 918,710
Plan Net Position - Held in trust for pension		<hr/> \$ 491,726,795 <hr/>

City of Pontiac General Employees' Retirement System

Statement of Changes in Plan Net Position Year Ended December 31, 2014

Additions

Investment income:	
Interest and dividends	\$ 9,915,647
Net increase in fair value of investments	22,469,444
Less investment advisor fees	<u>(2,869,403)</u>
Net investment income	29,515,688
Miscellaneous income	<u>17,453</u>
Total additions	29,533,141

Deductions

Retirees' pension benefits	27,494,450
Administrative expenses	<u>784,783</u>
Total deductions	<u>28,279,233</u>

Net Change in Plan Net Position 1,253,908

Plan Net Position - Beginning of year 490,472,887

Net Change in Plan Net Position - End of year \$ 491,726,795

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note I - Summary of Significant Accounting Policies

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

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.

Plan Sponsor Financial Condition - The City of Pontiac (the plan sponsor) was experiencing significant financial difficulty. In early 2013, the City was in receivership under Michigan Public Act 436 of 2012. The result was that the state had appointed an emergency manager to control the finances of the City. As of the end of fiscal year 2013, the City was no longer under receivership and is now governed by a transitional advisory board. The System is currently overfunded and no employer contributions are required at this time.

Basis of Accounting - The System follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to legal requirements. 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 at estimated fair value as determined by the System's management. These estimates are determined using financial statements issued by the private equity companies or limited partnerships in which such investments are held, adjusted by management as deemed appropriate based on known circumstances.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Approximately 11 percent of the System's assets are not publicly traded, and therefore do not have a readily determinable market value. Because these alternative investments are not readily marketable, their estimated value is subject to uncertainty, and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

Note 2 - Implementation of GASB Statement No. 67

The System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, during the year. The statement establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. As a result of the implementation of GASB Statement No. 67, the System's financial statements now include new disclosures and required supplemental information focused on the City's total and net pension liability.

Note 3 - Pension Plan

Plan Administration - The System's board administers the City of Pontiac General Employees' Retirement System Pension Plan - a single-employer defined benefit pension plan that provides pensions for substantially all permanent full-time general employees of the City of Pontiac, except police and fire employees. Benefit terms have been established by contractual agreements between the City of Pontiac and the various employee union representation; amendments are subject to the same process.

The board of trustees consists of 11 members - a member of the City Council to be selected by the City Council, the mayor of the City of Pontiac, the finance director of the City of Pontiac, three members appointed by the City Council who are not eligible to receive benefits under the retirement system, one active member of the System elected by the active members, three member trustees elected by active, deferred, or retired members, and one hospital member (could be deferred vested member or retired member) of the System who was formally employed by Pontiac General Hospital elected via an election conducted by the hospital.

Plan Membership - At December 31, 2013, pension plan membership consisted of the following:

Retirees and beneficiaries	1,132
Inactive plan members entitled to but not yet receiving benefits	261
Active plan members	32

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 3 - Pension Plan (Continued)

Benefits Provided - The System provides retirement benefits as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their retirement allowance, pursuant to the collective bargaining agreement or employment 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 - Article 9, Section 24 of the state of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the board of trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the city ordinance, union contracts, and plan provisions. For the year ended December 31, 2014, the active members were not required to contribute to the System. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not have to make a contribution to the System in the current year. Administrative costs are financed through investment earnings.

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The System's policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board of trustees to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity - Large cap	25.00%
Domestic equity - Mid cap	20.00%
Domestic equity - Small cap	10.00%
International equity	15.00%
Fixed-income - Domestic investment grade	20.00%
Fixed-income - High yield	5.00%
Private equity	5.00%
Cash or cash equivalents	0.00%

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 3 - Pension Plan (Continued)

Rate of Return - For the year ended December 31, 2014, the annual money weighted rate of return net of expenses on System investments was 6.76 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with state law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments. The reserve is funded by actuarially determined transfers from the employer.

The employee reserve is credited as employee contributions are received throughout the year; the System maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 4.0 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The balances of the reserve accounts at December 31, 2014 are as follows:

	<u>Required Reserve Balance</u>
Retiree reserve	\$ 248,903,028
Employee reserve	960,517

Net Pension Asset of the City

The net pension asset of the City of Pontiac has been measured as of December 31, 2014 based on benefits in force as of that date and is composed of the following:

Total pension liability	\$ 270,151,934
Plan fiduciary net position	<u>491,726,795</u>
City's net position asset	<u>\$ (221,574,861)</u>
Plan fiduciary net position as a percentage of the total pension asset	182.02 %

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 3 - Pension Plan (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2013, which used update procedures to roll forward the estimated asset to December 31, 2014. The valuation used the following actuarial assumptions applied to all periods included in the measurement:

Inflation	4.5 %	
Salary increases	5.6-9.4 %	Average, including inflation
Investment rate of return	7.5 %	Net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table.

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City of Pontiac contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table:

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 3 - Pension Plan (Continued)

Asset Class	Long-term Expected real Rate of return
Domestic equity - Large cap	5.34%
Domestic equity - Mid cap	6.08%
Domestic equity - Small cap	6.55%
International equity	5.84%
Fixed-income - Domestic investment grade	1.82%
Fixed-income - High yield	4.14%
Private equity	7.63%
Cash or cash equivalents	0.00%

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the net pension liability of the City of Pontiac, calculated using the discount rate of 7.50 percent, as well as what the City of Pontiac's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension asset of the City	\$ 197,165,009	\$ 221,574,861	\$ 242,482,235

Note 4 - 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 347 of 2012, 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 System's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 4 - Deposits and Investments (Continued)

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 347 of 2012, 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:

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	\$ 7,767,336	1.60 years
Commercial mortgage pools	6,319,356	2.62 years
Corporate and high yield bonds	42,855,567	4.64 years
Government agency notes and debentures	31,562,485	17.47 years
U.S. governmental issued commercial mortgage-backed securities	284,444	1.65 years
U.S. governmental mortgage-backed securities	11,985,595	2.54 years
Nongovernment-backed CMOs	116,639	1.06 years
Short-term investment funds	25,237,699	Unavailable

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 4 - 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. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Moody's
Asset-backed securities	\$ 2,803,051	Aaa
Asset-backed securities	1,438,586	Aa
Asset-backed securities	253,390	Baa
Asset-backed securities	3,272,309	Unrated
Commercial mortgage-backed securities	5,268,362	Aaa
Commercial mortgage-backed securities	865,209	Aa
Commercial mortgage-backed securities	185,785	Baa
Corporate bonds	1,539,362	Aa
Corporate bonds	6,836,200	A
Corporate bonds	15,893,561	Baa
Corporate bonds	242,050	Ba
Corporate bonds	8,035,071	B
Corporate bonds	10,227,191	Caa
Corporate bonds	82,132	Ca
Government agency notes and debentures	26,922,809	Aaa
Government agency notes and debentures	3,047,550	Aa
Government agency notes and debentures	1,592,126	Unrated
Nongovernment-backed CMOs	10,377	A
Nongovernment-backed CMOs	106,262	Unrated
Short-term investment funds	25,237,699	Unrated

City of Pontiac General Employees' Retirement System

Notes to Financial Statements December 31, 2014

Note 4 - Deposits and Investments (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 15 percent of total pension system investments. At year end December 31, 2014, the only type of investments which were subject to foreign currency risk were equity investments. The total amount of equity investments which were subject to foreign currency risk at year end was \$17,384,351. At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation loss of \$1,446,515 related to equity investments.

Security	Fair Market Value
Canadian Dollar	\$ 608,731
Hong Kong Dollar	1,878,172
Denmark Krone	2,899,049
European Euro	1,920,800
Japanese Yen	2,272,015
Mexican Peso	660,185
South African Rand	666,750
Swedish Krona	934,314
Swiss Franc	3,262,417
British Pound	2,281,917

Note 5 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The System is currently evaluating the impact this standard will have on the financial statements when adopted, during the System's year ending December 31, 2016.

Required Supplemental Information

City of Pontiac General Employees' Retirement System

Required Supplemental Information

Schedule of Changes in the Plan Net Pension Liability and Related Ratios

Last Fiscal Year

(Schedule is built prospectively upon implementation of Statement No. GASB 67)

	2014
Total Pension Liability	
Service cost	\$ 279,188
Interest	19,973,828
Changes in benefit terms	-
Differences between expected and actual experience	(2,538,358)
Changes in assumptions	-
Benefit payments, including refunds	(27,494,450)
Net Change in Total Pension Liability	(9,779,792)
Total Pension Liability - Beginning of year	279,931,726
Total Pension Liability - End of year	\$ 270,151,934
Plan Fiduciary Net Position	
Contributions - Employer	\$ -
Contributions - Member	-
Net investment income	29,515,688
Administrative expenses	(784,783)
Benefit payments, including refunds	(27,494,450)
Other	17,453
Net Change in Plan Fiduciary Net Position	1,253,908
Plan Fiduciary Net Position - Beginning of year	490,472,887
Plan Fiduciary Net Position - End of year	\$ 491,726,795
City's Net Pension Asset - Ending	\$ (221,574,861)
Plan Fiduciary Net Position as a % of Total Pension Asset	182.02 %
Covered Employee Payroll	\$ 1,478,241
City's Net Pension Asset as a % of Covered Employee Payroll	14,989.1 %

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,695	\$ 16,926
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	15,695	16,926
Contribution deficiency	\$ -									
Covered employee payroll	\$ 1,478,241	\$ 1,574,964	\$ 2,742,912	\$ 3,968,743	\$ 9,493,229	\$14,414,481	\$14,414,486	\$13,559,473	\$14,996,753	\$16,751,815
Contributions as a percentage of covered employee payroll	- %									

Notes to Schedule of System Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the City's fiscal year ended June 30, 2014 were determined based on the actuarial valuation as of December 31, 2011. The most recent valuation is as of December 31, 2014.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry age
Amortization method	Level Dollar, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	4.5%
Salary increases	5.6%-9.4% (includes inflation)
Investment rate of return	7.50%
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality	1983 Group annuity table for males and females with a 5-year set forward used for disabled lives
Other information	Post-retirement adjustment Court/MAPE - 2.50% of original retirement income for 14 years All others - 2.00% of original retirement income for 18 years.

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Investment Returns Last Ten Fiscal Years

2014

Annual money weighted rate of return, net of investment expense

6.76 %