
City of Pontiac General Employees' Retirement System

**Financial Report
with Supplemental Information
December 31, 2017**

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 fiduciary net position and the related statement of changes in fiduciary net position of the City of Pontiac General Employees' Retirement System (the "System") as of and for the year ended December 31, 2017, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of City of Pontiac General Employees' Retirement System as of December 31, 2017 and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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 14, 2018

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:

	2017	2016
Total assets	\$ 507,270,249	\$ 466,955,940
Total liabilities	833,572	803,908
Net position restricted for pensions	\$ 506,436,677	\$ 466,152,032
Net investment income	\$ 67,868,606	\$ 34,606,547
Other - Miscellaneous and litigation revenue	29,291	5,748
Retiree pension and annuity benefits	(26,916,912)	(27,119,534)
General and administrative expenses	(696,340)	(683,083)
Net increase in net position restricted for pensions	\$ 40,284,645	\$ 6,809,678

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. As a result of the System's funding status there are no actuarially required contributions which has resulted in benefits payments exceeding contribution revenue. 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, 2017:

Domestic equities	45%
Domestic fixed income	25
International equities	5
Emerging markets	5
Real estate	10
Private equity	10
Cash	0

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis

Investment Results

At the beginning of 2017, few investors expected that the markets would beat their 2016 performance. Many were concerned that protectionist policies in the U.S., a return to normalized monetary policy, implementation of Brexit and a host of other geo-political events would begin to tamp down investor enthusiasm.

Nevertheless, U.S. equities markets continued their strong performance with the NASDAQ, S&P 500 and Dow Jones all posting returns in excess of 20%. Interestingly, market volatility – as measured by the VIX – plumbed record lows. Technology stocks were the top performers and cryptocurrencies, which a lot of people are buying but few are understanding, went from fringe to mainstream as Bitcoin futures began trading on the CME Group Exchange in December. With the benefit of higher interest rates and deregulation, bank stocks also performed well. The 106-month bull market is the second-longest running on record. These factors along with the new tax reform law which takes effect in 2018 should also contribute to a stronger dollar which was down 10.3% in 2017, its worst performance in 14 years.

At its annual November meeting, OPEC and other oil producing countries surprised markets by extending output cuts through the end of 2018. This decision and evidence of compliance has supported prices at their highest levels for the year. After suffering a correction mid-year, U.S. crude rallied in the last half of the year to end up 12.5%.

The Federal Reserve (Fed) raised rates three times in 2017. Under Janet Yellen, the Fed has pursued a choreographed sell-off of the bonds that were purchased to help prop up the economy after 2008 and gradual rate increases. Jerome Powell – who took over from Ms. Yellen in February 2018 – looks poised to continue this approach. Inflation was 2.1%, unchanged from 2016 and in line with the Fed's target of 2%. GDP growth in 2017 was revised upwards to 2.3% as of May 8, 2018 and the unemployment rate was 4.1%, a 17-year low.

The phrase 'synchronized global growth' was used to describe the near-universal growth of economies around the world and most major stock indexes notched double-digit returns. The war in Syria and rumors of war with North Korea ebbed and flowed and elections in countries such as Germany, France and Iran left no lasting impression on the markets. The elevation to Crown Prince of reformist Mohammad Bin Salman in Saudi Arabia, the beginning of Chinese President Xi Jinping's second five-year term and the expansion of power granted to Turkey's President Recep Tayyip Erdogan also came and went with no enduring impact.

The Barclay's U.S. Aggregate Index returned 3.5% for the year; the Standard & Poor's 500 returned 21.8%; the MSCI EAFE Index (a proxy for developed markets international stocks) returned 25.0% and the MSCI Emerging Markets Index rose 37.8%. The total plan returned 15.31% for the year.

Plan Sponsor Financial Condition/Plan Update

The City of Pontiac, Michigan (the plan sponsor) (the "City") had experienced significant financial difficulty and in 2009 was placed in receivership under Michigan Public Act 436 of 2012. On March 31, 2016 the State returned local control of the City's operations to Mayor Deirdre Waterman and the Pontiac City Council and effective July 27, 2017, the City's receivership status was terminated. On April 4, 2017, the City announced that a tentative settlement had been reached in the retiree healthcare litigation matter. The settlement agreement must be approved by various parties, including the City Council, Federal District Court, and IRS, among others, and would impact the funded status of the System. On December 21, 2017 the City Council adopted a resolution to amend the Retirement Ordinance to provide an early retirement benefit to approximately 67 former City employees. The early retirement benefits are payable beginning January 1, 2018.

The System is currently overfunded and no employer contributions are required at this time. Should a contribution to the System be required in the future, there is uncertainty regarding the City's ability and intent to make contributions to the System.

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis

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 Fiduciary Net Position

December 31, 2017

Assets

Cash and cash equivalents (Note 4)	\$ 367,968
Investments at fair value: (Note 4)	
Short-term investments	14,337,034
Government agency notes and debentures	45,022,426
Corporate and other bonds	24,201,768
Domestic equities	315,202,803
Private equity	12,513,071
U.S. government mortgage-backed securities	24,433,223
Commercial paper	1,374,677
Commercial mortgage pools	2,902,745
Asset-backed securities	4,430,230
Limited partnerships	61,350,425
Receivables:	
Accrued interest receivable	1,124,707
Other receivables	9,172
Total assets	<u>507,270,249</u>

Liabilities - Accounts payable and other

833,572

Net Position - Restricted for pensions

\$ 506,436,677

City of Pontiac General Employees' Retirement System

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2017

Additions

Investment income (loss):	
Interest and dividends	\$ 7,395,261
Net increase in fair value of investments	63,187,877
Less investment advisor fees	<u>(2,714,532)</u>
Net investment income	67,868,606
Miscellaneous income	<u>29,291</u>
Total additions	67,897,897

Deductions

Retirees' pension benefits	26,916,912
Administrative expenses	<u>696,340</u>
Total deductions	<u>27,613,252</u>

Net Change in Fiduciary Net Position Restricted for Pensions 40,284,645

Fiduciary Net Position Restricted for Pensions - Beginning of year 466,152,032

Fiduciary Net Position Restricted for Pensions - End of year \$ 506,436,677

December 31, 2017

Note 1 - Significant Accounting Policies

Reporting Entity

The City of Pontiac, Michigan (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. 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, Michigan (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, but was governed by a Transitional Advisory Board. On March 31, 2016, the State amended Executive Order S-334 and rescinded Executive Order S-332. These changes effectively restored much of the city charter powers to the mayor and city council. Effective July 27, 2017, the City's receivership status was terminated. 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 (GASB).

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 held by the System are reported at estimated 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. 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 audited 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.

Approximately 14 percent of the System's assets are not publicly traded and, therefore, do not have a readily determinable market value. Because these 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 - Pension Plan

Plan Administration

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

December 31, 2017

Note 2 - Pension Plan (Continued)

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, Michigan; the finance director of the City of Pontiac, Michigan; three citizen appointees; three member trustees, one elected by active employees and two elected by active, deferred, and retired members, one retiree trustee elected by retirees; 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 with the assistance of the Retirement Office.

Plan Membership

At December 31, 2017, pension plan membership consisted of the following:

Retirees and beneficiaries	29
Inactive plan members entitled to but not yet receiving benefits	183
Active plan members	<u>1,078</u>
Total employees covered by the plan	<u><u>1,290</u></u>

The plan is closed to all new hires after April 1, 2013, except for those new hires that are hired under the Michigan Association of Public Employees (representing the 50th District Court Employees) collective bargaining agreement.

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.

During fiscal year 2017, the City adopted the following changes to the benefits provided to the System's participants:

1. The City issued Ordinance # 2349 to amend the Retirement Ordinance to provide an early retirement benefit to approximately 67 former city employees. The early retirement benefits are payable beginning January 1, 2018. The actuarial calculation of the total pension liability as of December 31, 2017 as disclosed herein incorporates an additional liability of approximately \$7.1 million related to the granting of this additional benefit.
2. In 2014, Ordinance # 2300 was passed through and because of this, the retirees received a \$400 per month temporary increase in pension benefits, which was slated to expire on August 31, 2015. Subsequently, the City passed Ordinance # 2327, which extended the payment of the benefit through August 31, 2016. During fiscal year 2017, the City issued Ordinance # 2346 to extend the \$400 temporary benefit increase, which were paid out to retirees; the \$400 additional benefit will be paid through August 2018.

Note 2 - Pension Plan (Continued)

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 in accordance with city ordinance, union contracts, and plan provisions. For the year ended December 31, 2017, 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.

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, 2017:

Asset Class	Target Allocation
Domestic equity - Large cap	20.00 %
Domestic equity - Mid cap	15.00
Domestic equity - Small cap	10.00
International equity	5.00
Emerging markets equity	5.00
Fixed income - Core	25.00
Real estate	10.00
Private equity	10.00

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return, net of expenses on system investments, was 15.31 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, his or her balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2017

Note 2 - Pension Plan (Continued)

The balances of the reserve accounts at December 31, 2017 are as follows:

	<u>Required Reserve</u>
Retiree reserve	\$ 231,193,313
Employee reserve	485,126

Note 3 - Net Pension Asset of the City

The components of the net pension asset of the City of Pontiac at December 31, 2017 were as follows:

Total pension liability	\$ 267,109,515
Plan fiduciary net position	<u>(506,436,677)</u>
City's net pension asset	<u>\$ (239,327,162)</u>
Plan fiduciary net position as a percentage of the total pension liability	(189.60)%

Actuarial Assumptions

The total pension asset was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.25%	
Salary increases	3.6% to 7.4%	Average, including wage inflation of 2.5%
Investment rate of return	7.0%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Health Annuitant Mortality Table unadjusted and projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scales.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 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 system 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.

December 31, 2017

Note 3 - Net Pension Asset of the City (Continued)

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 geometric real rates of return as of December 31, 2017 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity - Large cap	5 %
Domestic equity - Mid cap	6
Domestic equity - Small cap	6
International equity	5
Emerging markets equity	6
Fixed income - Core	2
Real estate	4
Private equity	8

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City of Pontiac, Michigan, calculated using the discount rate of 7.00 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net pension liability of the System	\$ (213,901,353)	\$ (239,327,162)	\$ (260,776,532)

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.

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.

December 31, 2017

Note 4 - Deposits and Investments (Continued)

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 System had the following investments subject to interest rate risk:

Investment	Fair Value	Weighted- average Maturity (Years)
Asset-backed securities	\$ 4,430,230	3.57
Commercial mortgage pools	2,847,067	28.21
Commercial paper	1,374,677	0.01
Corporate bonds	24,201,768	8.30
Government agencies	1,763,825	3.67
Government bonds	31,660,024	7.31
Government mortgage-backed securities	24,433,223	20.54
Government-issued commercial mortgage-backed securities	1,173,558	0.64
Index linked government bonds	5,160,958	7.05
Municipal/provincial bonds	5,264,061	3.99
Nongovernmental-backed commercial mortgage pools	55,678	17.94
Short-term investment funds	14,337,034	Unavailable

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2017

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; the overall quality rating of each high-grade portfolio must be BBB or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 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	\$ 2,294,357	Aaa
Asset-backed securities	240,919	Aa
Asset-backed securities	1,894,954	Unrated
Commercial mortgage-backed securities	1,985,914	Aaa
Commercial mortgage-backed securities	861,153	Aa
Commercial paper	1,374,677	Unrated
Nongovernmental commercial-backed securities	3,329	A
Nongovernmental commercial-backed securities	52,349	Unrated
Corporate bonds	50,366	Aaa
Corporate bonds	986,788	Aa
Corporate bonds	11,751,726	A
Corporate bonds	11,412,888	Baa
Government agencies	926,437	Aaa
Government agencies	837,388	Aa
Government bonds	11,216,774	Aaa
Government mortgage-backed securities	24,433,223	Aaa
Municipal/Provincial bonds	956,952	Aaa
Municipal/Provincial bonds	2,170,700	Aa
Municipal/Provincial bonds	2,136,409	Unrated

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 10 percent of total pension system investments. At year end December 31, 2017, the only type of investments that were subject to foreign currency risk were equity investments. The total amount of equity investments that was subject to foreign currency risk at year end was \$29,100,414.

At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation loss of \$398,516 related to equity investments.

Security	Fair Value
Australian dollar	\$ 1,976,611
British pound	4,924,748
Canadian dollar	909,999
Denmark krone	3,339,572
European euro	7,023,434
Hong Kong dollar	3,003,198
Japanese yen	2,821,398
Mexican peso	1,112,945
Swedish krona	1,408,061
Swiss franc	2,580,448

December 31, 2017

Note 5 - Fair Value Measurements

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2017

Note 5 - Fair Value Measurements (Continued)

The System has the following recurring fair value measurements as of December 31, 2017:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Assets				
Debt securities:				
U.S. Treasury securities	\$ -	\$ 32,036,837	\$ -	\$ 32,036,837
U.S. agencies	-	1,264,195	-	1,264,195
Municipal/Provincial	-	4,887,248	-	4,887,248
Commercial mortgage backed	-	4,076,303	-	4,076,303
Commercial paper	-	1,374,677	-	1,374,677
Residential mortgage backed	-	24,932,853	-	24,932,853
Index-linked government bonds	-	5,160,958	-	5,160,958
Corporate bonds	-	24,201,768	-	24,201,768
Asset backed	-	4,430,230	-	4,430,230
Total debt securities	-	102,365,069	-	102,365,069
Equity securities:				
Common stock	314,556,886	-	-	314,556,886
Exchange-traded funds	645,917	-	-	645,917
Total equity securities	315,202,803	-	-	315,202,803
Private equity funds	-	-	12,513,071	12,513,071
Total investments by fair value level	<u>\$ 315,202,803</u>	<u>\$ 102,365,069</u>	<u>\$ 12,513,071</u>	430,080,943
Investments measured at NAV:				
International equities				41,399,126
Real estate funds				13,067,324
Gold bond fund				6,883,975
Total investments measured at NAV				<u>61,350,425</u>
Total investments measured at fair value				<u>\$ 491,431,368</u>

The fair value of debt securities at December 31, 2017 was determined primarily based on Level 2 inputs. The fair value of these investments is based on prices that have been evaluated by independent pricing services. Such evaluated prices (which is the value of the bond less accrued interest) may be determined by using inputs, such as interest rates and yield curves that are observable at commonly quoted intervals, maturities, call features, and ratings, among other factors.

December 31, 2017

Note 5 - Fair Value Measurements (Continued)

The fair value of private equity investments at December 31, 2017 was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments based on a review of an independent auditor's report for each fund and the fund's general partner's assessment of fair value. The general partner's estimates may include the use of pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the underlying assets. Currently, there remains \$3.7 million in unfunded commitments to these funds.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table. The fair value at December 31, 2017 was determined based on the NAV per share of the System's ownership interest in the partners' capital.

Investments in Entities that Calculate Net Asset Value per Share

The System holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

As of the year ended December 31, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
International equities fund	\$ 41,399,126	\$ -	Monthly	10 Days
Real estate funds	13,067,324	24,140,214	Monthly/Quarterly	10 - 180 Days
Global bond fund	6,883,975	-	Monthly	10 Days
Total investments measured at NAV	<u>\$ 61,350,425</u>	<u>\$ 24,140,214</u>		

The international equities fund includes investments in mainly non-U.S. publicly traded equities and other assets. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The global bonds fund includes investments in investment grade fixed-income securities issued by U.S. and non-U.S. agency and other government, corporate, and other issuers. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments.

The real estate funds class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital.

The private equity fund class includes several private equity funds that have holdings in underlying U.S. and non-U.S. buyout funds, international funds, venture capital funds, special situations funds, hedge funds, and real estate funds.

Note 6 - Potential Plan Changes

On April 4, 2017, the City announced that a tentative settlement had been reached with regard to a retiree healthcare matter. This settlement agreement must be approved by various parties, including the City Council, Federal District Court, and IRS, among others. If fully approved, the settlement agreement would provide healthcare funding via the creation of a VEBA by utilizing certain overfunded assets from this System; therefore, if the changes are approved by all required parties, the funded status of the System would decline. The System is currently significantly overfunded.

Required Supplemental Information

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios

Last Four Fiscal Years
(Schedule is Built Prospectively upon Implementation of GASB Statement No. 67)

	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 255,665	\$ 324,671	\$ 301,489	\$ 279,188
Interest	17,598,425	17,944,933	19,232,034	19,973,828
Changes in benefit terms	10,658,814	-	5,407,365	-
Differences between expected and actual experience	871,705	5,189,027	(23,548,600)	(2,538,358)
Changes in assumptions	-	15,686,953	9,124,140	-
Benefit payments, including refunds	(26,916,912)	(27,119,534)	(28,052,593)	(27,494,450)
Net Change in Total Pension Liability	2,467,697	12,026,050	(17,536,165)	(9,779,792)
Total Pension Liability - Beginning of year	264,641,818	252,615,768	270,151,934	279,931,726
Total Pension Liability - End of year	\$ 267,109,515	\$ 264,641,818	\$ 252,615,769	\$ 270,151,934
Plan Fiduciary Net Position				
Net investment income	\$ 67,868,606	\$ 34,606,547	\$ (3,414,613)	\$ 29,515,688
Administrative expenses	(696,340)	(683,083)	(954,593)	(784,783)
Benefit payments, including refunds	(26,916,912)	(27,119,534)	(28,052,593)	(27,494,450)
Other	29,291	5,748	37,358	17,453
Net Change in Plan Fiduciary Net Position	40,284,645	6,809,678	(32,384,441)	1,253,908
Plan Fiduciary Net Position - Beginning of year	466,152,032	459,342,354	491,726,795	490,472,887
Plan Fiduciary Net Position - End of year	\$ 506,436,677	\$ 466,152,032	\$ 459,342,354	\$ 491,726,795
City's Net Pension Asset - Ending	\$ (239,327,162)	\$ (201,510,214)	\$ (206,726,585)	\$ (221,574,861)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	189.60 %	176.14 %	181.83 %	182.02 %
Covered Employee Payroll	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
City's Net Pension Asset as a Percentage of Covered Employee Payroll	(16,501.32)%	(13,081.07)%	(13,522.76)%	(14,989.09)%

City of Pontiac General Employees' Retirement System

**Required Supplemental Information
Schedule of Investment Returns**

**Last Four Fiscal Years
(Schedule is Built Prospectively upon Implementation of GASB Statement No. 67)
Years Ended December 31**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	15.31 %	7.79 %	(0.80)%	6.80 %

City of Pontiac General Employees' Retirement System

Note to Pension Required Supplemental Information Schedules

December 31, 2017

Fiscal Year 2017 Changes

Changes in Benefit Terms in Fiscal Year 2017

The System adopted the following benefit changes in fiscal year 2017:

1. The City of Pontiac, Michigan (plan sponsor) adopted a resolution to amend the Retirement Ordinance to provide an early retirement benefit to approximately 67 former city employees. The early retirement benefits are payable beginning January 1, 2018.
2. The City of Pontiac, Michigan (plan sponsor) adopted a resolution in fiscal year 2017, to extend the \$400 temporary benefits which were paid out to retirees through August of 2018.

Fiscal Year 2016 Changes

Changes in Assumptions

1. The discount rate was decreased from 7.50 percent to 7.00 percent.
2. The mortality tables were adjusted. The System moved from using RP-2014 Blue Collar tables to RP-2014 Healthy Annuitant Mortality Table (unadjusted) projected to 2021 using a static projection based on the two-dimensional MP-2014 improvement scales.

Fiscal Year 2015 Changes

Changes in in Benefit Terms

1. The City of Pontiac, Michigan (plan sponsor) adopted a resolution in August of 2015, to extend the \$400 temporary benefits which were paid out to retirees through August of 2016.

Changes in Assumptions

1. The mortality tables were adjusted. The System moved from using the 1983 Group Annuity Mortality table to RP-2014 Blue Collar tables.