
City of Pontiac General Employees' Retirement System

**Financial Report
with Supplemental Information
December 31, 2019**

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, 2019, 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, 2019 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 Matter

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 24, 2020

City of Pontiac General Employees' Retirement System, Michigan

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:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 513,574,732	\$ 455,075,469
Total liabilities	757,464	901,549
Net Position Restricted for Pensions	\$ 512,817,268	\$ 454,173,920
Net Investment Income (loss)	\$ 87,393,680	\$ (23,328,559)
Other- Miscellaneous and litigation revenue	55,649	47,079
Retiree pension and annuity benefits	(28,114,053)	(28,199,310)
General and administrative expenses	<u>(691,928)</u>	<u>(781,967)</u>
Net increase (decrease) in net position restricted for pensions	\$ 58,643,348	\$ (52,262,757)

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, 2019:

Domestic equities	50%
Domestic fixed income	25%
International equities	5%
Emerging markets	5%
Real estate	10%
Private equity	5%
Cash	0%

City of Pontiac General Employees' Retirement System, Michigan

Management's Discussion and Analysis (continued)

Investment Results

Twelve months ago, few could have imagined the S&P 500 delivering a gain of more than 28% in 2019. It was a year filled with fears that were never realized: a global economic slowdown, disruptive trade wars and potential missteps from Federal Reserve (the Fed) policy.

One of the keys of the market's 2019 success was starting from a low base. A steep sell-off in 2018 left the S&P 500 just .2% from officially hitting a bear market which is defined as a 20% decline from its closing peak. A hot technology sector and easy money repeatedly sent markets to all-time highs.

Much of the stock market's gains in 2019 can be attributed to a dramatic policy shift at the Federal Reserve. The Fed raised rates 4 times in 2018, which took its key rate to 2.5%. In 2019, the Fed had a change of heart and lowered rates three times. Falling interest rates sent investors looking for yield and put more money into stocks. The Fed said it expects to leave rates unchanged for 2020, giving investors clarity on top of what remain historically low rates.

The U.S. dollar index recorded its smallest-ever annual move in 2019, up just 0.24% for the year after a drop in December reversed early gains as trade hopes and investor confidence diminished demand for the safe-haven asset. GDP grew by 2.3% and the unemployment rate continued to reach 50-year record lows, falling to 3.5%.

For the year, the Barclay's U.S. Aggregate Index returned 8.72%; the NCREIF ODCE (real estate) returned 5.34%; the Standard & Poor's 500 returned 31.49%; the MSCI EAFE Index (developed markets international stocks) returned 22.01%; and the MSCI Emerging Markets Index returned 18.42%. The total plan gain was 19.71% for the year.

The virus now known as Covid-19 was first identified in late 2019. The large-scale pandemic has significantly impacted the global economy and – as a result- the System's investment portfolio has incurred a decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions - and due to market volatility - the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Plan Sponsor Financial Condition/Plan Update

The settlement agreement which was reached in the retiree healthcare litigation was approved by the court in 2018 and must be approved by MAPE and the IRS. On November 26, 2019, the City Council approved and authorized execution of the VEBA documents and authorized submission to the IRS of the GERS Termination, the proposed Reestablished GERS and request for a private letter ruling (the IRS submission). 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 IRS submission has not been made as of May 19, 2020.

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 to make contributions to the System.

City of Pontiac General Employees' Retirement System, Michigan

Management's Discussion and Analysis (continued)

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, 2019

Assets

Cash and cash equivalents (Note 4)	\$ 739,633
Investments at fair value: (Note 4)	
Short-term investments	14,732,011
Government agency notes and debentures	59,059,718
Corporate and other bonds	30,336,279
Domestic equities	260,285,906
Private equity	11,310,245
U.S. government mortgage-backed securities	30,387,801
Commercial mortgage pools	1,402,287
Limited partnerships	63,407,174
Foreign equities	40,585,162
Receivables:	
Accrued interest receivable	1,314,670
Other receivables	<u>13,846</u>
Total assets	513,574,732
Liabilities - Accounts payable and other	<u>757,464</u>
Net Position - Restricted for pensions	<u>\$ 512,817,268</u>

City of Pontiac General Employees' Retirement System

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2019

Additions

Investment income (loss):	
Interest and dividends	\$ 8,680,087
Net increase in fair value of investments	81,211,603
Less investment advisor fees	<u>(2,498,010)</u>
Net investment income	87,393,680
Miscellaneous income	<u>55,649</u>
Total additions	87,449,329

Deductions

Retirees' pension benefits	28,114,053
Administrative expenses	<u>691,928</u>
Total deductions	28,805,981

Net Change in Fiduciary Net Position Restricted for Pensions

Fiduciary Net Position Restricted for Pensions - Beginning of year	58,643,348
Fiduciary Net Position Restricted for Pensions - End of year	<u>454,173,920</u>
	<u>\$ 512,817,268</u>

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

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 or loans to the City or any other related party.

Basis of Accounting

The System follows accounting principles generally accepted in the United States of America (GAAP) 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 25 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.

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.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 2 - Pension Plan (Continued)

Plan Membership

At December 31, 2019, pension plan membership consisted of the following:

Retirees and beneficiaries	1,105
Inactive plan members entitled to but not yet receiving benefits	113
Active plan members	<u>27</u>
Total employees covered by the plan	<u><u>1,245</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.

In 2013, 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; Ordinance #2337, which extended the payment of the benefit through August 31, 2017; Ordinance #2346, which further extended the benefit through August 31, 2018; and Ordinance #2356, to extend through August 2019. During fiscal year 2019, the City issued Ordinance #2369 to extend the \$400 temporary benefit increase, which was paid out to retirees; the \$400 additional benefit will be paid through August 2020.

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, 2019, 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.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 2 - Pension Plan (Continued)

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, 2019:

Asset Class	Target Allocation
Domestic equity - All cap	14.00 %
Domestic equity - Large cap	10.00
Domestic equity - Mid cap	15.00
Domestic equity - Small cap	11.00
International equity	5.00
Emerging markets equity	5.00
Fixed income - Core	25.00
Real estate	10.00
Private equity	5.00

Rate of Return

For the year ended December 31, 2019, the annual money-weighted rate of return, net of expenses, on system investments was 19.61 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.

The balances of the reserve accounts at December 31, 2019 are as follows:

	Required Reserve
Retiree reserve	\$ 236,546,713
Employee reserve	293,555

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 3 - Net Pension Asset of the City

The components of the net pension asset of the City of Pontiac, Michigan at December 31, 2019 were as follows:

Total pension liability	\$ 256,234,235
Plan fiduciary net position	<u>(512,817,268)</u>
City's net pension asset	<u>\$ (256,583,033)</u>
Plan fiduciary net position as a percentage of the total pension liability	(200.14)%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2019. 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 percent
Investment rate of return	7.0%	Net of pension plan investment expenses, 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.

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, 2019 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 - All cap	5.01 %
Domestic equity - Large cap	4.76
Domestic equity - Mid cap	5.25
Domestic equity - Small cap	5.25
International equity	5.41
Emerging markets equity	6.38
Fixed income - Core	2.01
Real estate	4.53
Private equity	7.81

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

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

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

The following presents the net pension asset of the City of Pontiac, Michigan calculated using the discount rate of 7.00 percent, as well as what the System's net pension asset 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 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net pension asset of the System	\$ (232,924,091)	\$ (256,583,033)	\$ (276,749,453)

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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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 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.

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.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 4 - Deposits and Investments (Continued)

At year end, the System had the following investments subject to interest rate risk:

Investment	Carrying Value	Weighted-average Maturity (Years)
Asset-backed securities	\$ 31,132	2.12
Commercial mortgage pools	1,376,847	26.18
Corporate bonds	30,336,279	7.95
Government agencies	5,657,061	9.50
Government bonds	43,672,045	6.78
Government mortgage-backed securities	30,387,801	21.61
Municipal/provincial bonds	9,699,479	2.93
Non-government-backed C.M.O.s	25,441	15.41

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	Carrying Value	Moody's
Asset-backed securities	\$ 16,721	Aaa
Asset-backed securities	14,412	Unrated
Commercial mortgage-backed securities	1,024,646	Aaa
Commercial mortgage-backed securities	90,628	Aa
Commercial mortgage-backed securities	261,573	A
Corporate bonds	199,589	Aaa
Corporate bonds	665,754	Aa
Corporate bonds	12,274,854	A
Corporate bonds	16,371,463	Baa
Corporate bonds	824,619	Unrated
Short-term investments	14,732,011	Unrated
Government agencies	5,202,792	Aaa
Government agencies	454,269	Aa
Government bonds	41,464,776	Aaa
Municipal/provincial bonds	1,363,081	Aaa
Municipal/provincial bonds	3,501,904	Aa
Municipal/provincial bonds	4,834,494	Unrated
Non-government-backed C.M.O.s	25,441	Unrated

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

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 10 percent of total pension system investments. At December 31, 2019, the only type of investments that were subject to foreign currency risk were equity investments. The total amount of equity investments that were subject to foreign currency risk at year end was \$10,468,720.

At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation loss of \$145,286 related to equity investments.

Security	Foreign Currency
Australian dollar	\$ 849,819
British pound	1,691,752
Canadian dollar	229,526
Danish krone	495,950
European euro	2,727,328
Hong Kong dollar	1,174,899
Japanese yen	501,512
Mexican peso	377,519
Swedish krona	461,999
Swiss franc	1,958,416

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 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 above 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, 2019

Note 5 - Fair Value Measurements (Continued)

The System has the following recurring fair value measurements as of December 31, 2019:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Balance at December 31, 2019
Assets					
Debt securities:					
U.S. Treasury securities	\$ -	\$ 43,672,046	\$ -	\$ 43,672,046	
U.S. agencies	-	5,657,061	-	5,657,061	
Municipal/Provincial	-	9,699,479	-	9,699,479	
Commercial mortgage backed	-	1,376,847	-	1,376,847	
Residential mortgage backed	-	30,413,240	-	30,413,240	
Corporate bonds	-	30,336,279	-	30,336,279	
Asset backed	-	31,133	-	31,133	
Total debt securities	-	121,186,085	-	121,186,085	
Asset backed:					
Common stock	245,349,970	-	-	245,349,970	
Exchange-traded funds	427,282	-	-	427,282	
Total equity securities	245,777,252	-	-	245,777,252	
Private equity funds	-	-	11,310,245	11,310,245	
Total	<u>\$ 245,777,252</u>	<u>\$ 121,186,085</u>	<u>\$ 11,310,245</u>	<u>378,273,582</u>	
Investments measured at NAV:					
International equities				40,721,353	
Domestic equities fund				31,421,261	
Real estate funds				46,358,376	
Total investments measured at NAV				<u>118,500,990</u>	
Total investments measured at fair value				<u>\$ 496,774,572</u>	

The fair value of Level 1 equity securities as of December 31, 2019 is valued using prices quoted in active markets for those securities. The fair value of short-term investment funds as of December 31, 2019 is valued at cost, which estimates fair value.

The fair value of debt securities at December 31, 2019 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 are 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.

The fair value of private equity investments at December 31, 2019 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 \$5.9 million in unfunded commitments to these funds.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 5 - Fair Value Measurements (Continued)

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the following table. The fair value at December 31, 2019 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 for which 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.

The fair value at December 31, 2019 was determined based on the NAV per share of the System's ownership interest in the partners' capital.

At December 31, 2019, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
International equities fund	\$ 40,721,353	\$ -	Daily/Monthly	10 days
Domestic equity fund	31,421,261	-	Daily	10 days
Real estate funds	46,358,376	-	Monthly/Quarterly	10-180 days
Total investments measured at NAV	<u>\$ 118,500,990</u>	<u>\$ -</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 domestic equities funds class includes investments in U.S. publicly traded equities and other assets. The fair value of the investments in this fund have been estimated using 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 net asset value of the System's ownership interest in partners' capital.

Disclosures Regarding Redemption Only upon Liquidation

The investments in private equity can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over the next 7 to 10 years. However, as of December 31, 2019, it is probable that all of the investments of this type will be sold at an amount different from fair value.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2019

Note 6 - Potential Plan Changes

On April 4, 2017, the City announced that a tentative settlement had been reached with regard to the retiree healthcare matter. On November 19, 2018, the federal judge in the case approved the tentative settlement. This settlement agreement must yet be approved by various parties, including the Michigan Association of Public Employees (MAPE) and the Internal Revenue Service (IRS) among others. If fully approved by all parties, the settlement agreement would provide healthcare funding via the creation of a volunteer employees' beneficiary association (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. On November 26, 2019, the City Council approved and authorized execution of the VEBA documents and authorized submission to the IRS of the GERS Termination Amendment, the proposed Reestablished GERS, and request for a private letter ruling (the "IRS submission"). The IRS submission has not been made as of the date of this report.

Note 7 - Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the large-scale pandemic has significantly impacted the global economy. As a result, the System's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Required Supplemental Information

City of Pontiac General Employees' Retirement System

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

Last Six Fiscal Years

(Schedule is Built Prospectively upon Implementation of GASB Statement No. 67)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 233,616	\$ 242,405	\$ 255,665	\$ 324,671	\$ 301,489	\$ 279,188
Interest	17,384,038	17,725,816	17,598,425	17,944,933	19,232,034	19,973,828
Changes in benefit terms	3,402,001	3,470,936	10,658,814	-	5,407,365	-
Differences between expected and actual experience	1,139,898	1,839,373	871,705	5,189,027	(23,548,601)	(2,538,358)
Changes in assumptions	-	-	-	15,686,953	9,124,140	-
Benefit payments, including refunds	(28,114,053)	(28,199,310)	(26,916,912)	(27,119,534)	(28,052,593)	(27,494,450)
Net Change in Total Pension Liability	(5,954,500)	(4,920,780)	2,467,697	12,026,050	(17,536,166)	(9,779,792)
Total Pension Liability - Beginning of year	<u>262,188,735</u>	<u>267,109,515</u>	<u>264,641,818</u>	<u>252,615,768</u>	<u>270,151,934</u>	<u>279,931,726</u>
Total Pension Liability - End of year	<u>\$ 256,234,235</u>	<u>\$ 262,188,735</u>	<u>\$ 267,109,515</u>	<u>\$ 264,641,818</u>	<u>\$ 252,615,768</u>	<u>\$ 270,151,934</u>
Plan Fiduciary Net Position						
Net investment income (loss)	\$ 87,449,329	\$ (23,328,559)	\$ 67,868,606	\$ 34,606,547	\$ (3,414,613)	\$ 29,515,688
Administrative expenses	(691,928)	(781,967)	(696,340)	(683,083)	(954,593)	(784,783)
Benefit payments, including refunds	(28,114,053)	(28,199,310)	(26,916,912)	(27,119,534)	(28,052,593)	(27,494,450)
Other	-	47,079	29,291	5,748	37,358	17,453
Net Change in Plan Fiduciary Net Position	58,643,348	(52,262,757)	40,284,645	6,809,678	(32,384,441)	1,253,908
Plan Fiduciary Net Position - Beginning of year	<u>454,173,920</u>	<u>506,436,677</u>	<u>466,152,032</u>	<u>459,342,354</u>	<u>491,726,795</u>	<u>490,472,887</u>
Plan Fiduciary Net Position - End of year	<u>\$ 512,817,268</u>	<u>\$ 454,173,920</u>	<u>\$ 506,436,677</u>	<u>\$ 466,152,032</u>	<u>\$ 459,342,354</u>	<u>\$ 491,726,795</u>
System's Net Pension Asset - Ending	<u>\$ (256,583,033)</u>	<u>\$ (191,985,185)</u>	<u>\$ (239,327,162)</u>	<u>\$ (201,510,214)</u>	<u>\$ (206,726,586)</u>	<u>\$ (221,574,861)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	200.14 %	173.22 %	189.60 %	176.14 %	181.83 %	182.02 %
Covered Payroll	\$ 1,391,765	\$ 1,427,628	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
System's Net Pension Asset as a Percentage of Covered Payroll	(18,435.80)%	(13,447.84)%	(16,501.32)%	(13,081.07)%	(13,522.76)%	(14,989.09)%

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of City Contributions

	Last Ten Fiscal Years Years Ended December 31									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution Contributions in relation to the actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,391,765	\$ 1,427,628	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241	\$ 1,574,964	\$ 2,742,912	\$ 3,968,743	\$ 9,493,229
Contributions as a Percentage of Covered Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Investment Returns

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	19.61 %	(4.63)%	15.31 %	7.79 %	(0.80)%	6.80 %

City of Pontiac General Employees' Retirement System

Notes to Pension Required Supplemental Information Schedules

December 31, 2019

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, two and one-half years prior to the end of the plan fiscal year in which the contributions are reported. Contributions for the City's fiscal year ended June 30, 2019 were determined based on the actuarial valuation as of December 31, 2016. The most recent valuation is as of December 31, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years (open basis)
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Salary increase	3.6 to 7.4 percent, including wage inflation
Investment rate of return	7.00 percent
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2014 Health Annuitant Mortality Table unadjusted and projected to 2021 using static projection based on the two-dimensional MP-2014 improvement scales

Fiscal Year 2019 Changes

The City of Pontiac, Michigan (plan sponsor) adopted a resolution in fiscal year 2019 to extend the \$400 temporary benefits that were paid out to retirees through August 2020.

Fiscal Year 2018 Changes

The City of Pontiac, Michigan (plan sponsor) adopted a resolution in fiscal year 2018 to extend the \$400 temporary benefits that were paid out to retirees through August 2019.

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 on January 1, 2018.
2. The City of Pontiac, Michigan (plan sponsor) adopted a resolution in fiscal year 2017 to extend the \$400 temporary benefits that were paid out to retirees through August 2018.

Fiscal Year 2016 Changes

Changes in Assumptions

1. The discount rate was decreased from 7.50 to 7.00 percent.
2. The mortality tables were adjusted. The System moved from 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.

City of Pontiac General Employees' Retirement System

Notes to Pension Required Supplemental Information Schedules (Continued)

December 31, 2019

Fiscal Year 2015 Changes

Changes in Benefit Terms

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

Changes in Assumptions

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