

# **City of Pontiac General Employees' Retirement System**

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**Financial Report  
with Supplemental Information  
December 31, 2015**

# **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"), as of and for the year ended December 31, 2015 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, 2015 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.

***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 & Morse, PLLC*

June 3, 2016

# 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:

	2015	2014
Total assets	\$ 460,056,776	\$ 492,645,505
Total liabilities	714,422	918,710
Net position restricted for pensions	<b>\$ 459,342,354</b>	<b>\$ 491,726,795</b>
Net investment (loss) income	\$ (3,414,613)	\$ 29,515,688
Other - Miscellaneous and litigation revenue	37,358	17,453
Retiree pension and annuity benefits	(28,052,593)	(27,494,450)
General and administrative expenses	(954,593)	(784,783)
Net increase (decrease) in net position restricted for pensions	<b>\$ (32,384,441)</b>	<b>\$ 1,253,908</b>

### 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)

### 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, 2015:

	<u>Adopted Asset Allocation</u>
Domestic equity - Large cap	25%
Domestic equity - Mid cap	20%
Domestic equity - Small cap	10%
International equity	15%
Fixed-income - Domestic investment grade	20%
Fixed-income - High yield	5%
Private equity	5%

### Investment Results

Positive investment returns were difficult to achieve in 2015 across all markets with most major indices either flat or negative. The Federal Reserve raised interest rates in December of 2015 for the first time since 2006. This was in spite of weak growth in the U.S. and low inflation. The dollar strengthened by 10 percent in 2015 and GDP grew by 2.4 percent, which were largely unchanged from 2014. Inflation was 0.7 percent, well below the Federal Reserve's target of 2 percent.

Global markets did not fare much better. The European Central Bank lowered interest rates into negative territory and announced its plan to extend the quantitative easing program through the first quarter of 2017. Oil prices continued their decline, dropping a further 30 percent in 2015 to around \$35 per barrel. China's slowing economic growth is expected to have a noticeable impact on international trade as well as commodity prices.

Year-end results do not accurately reflect the significant volatility experienced by the markets in 2015. The Barclay's U.S. Aggregate Index returned .6 percent for the year. The Standard & Poor's 500 returned 1.4 percent and the MSCI EAFE Index (a proxy for international stocks) was down -.8 percent. The total plan returned -.3 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) had experienced significant financial difficulty and in 2009 was placed in receivership under Michigan Public Act 436 of 2012. Subsequent to year end, on March 31, 2016, the state returned local control of the City's operations to Mayor Dierdre Waterman and the Pontiac City Council, having determined that significant progress had been made, including the buildup of a \$10 million reserve fund. The System is currently overfunded and no employer contributions are required at this time. However, the City remains in litigation with city retirees regarding healthcare benefits. Should a contribution to the pension plan 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, 2015

### Assets

Cash and cash equivalents (Note 3)	\$	172
Investments at fair value (Note 3):		
Short-term investments		14,420,541
Government agency notes and debentures		33,643,990
Corporate and other bonds		20,697,394
Domestic equities		287,891,538
Private equity		13,812,729
U.S. government mortgage-backed securities		14,003,486
Foreign equities		20,204,685
High-yield bonds		9,386,097
Commercial mortgage pools		4,631,380
Asset-backed securities		5,191,607
Limited partnerships		35,081,312
Receivables:		
Accrued interest receivable		1,088,070
Other receivables		3,775
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Total assets		460,056,776

**Liabilities** - Accounts payable and other

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714,422

**Net Position** - Restricted for pensions

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**\$ 459,342,354**

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# City of Pontiac General Employees' Retirement System

## Statement of Changes in Plan Net Position Year Ended December 31, 2015

### Additions

Investment income:	
Interest and dividends	\$ 9,616,993
Net decrease in fair value of investments	(10,305,650)
Less investment advisor fees	<u>(2,725,956)</u>
Net investment income	(3,414,613)
Miscellaneous income	<u>37,358</u>
Total additions	(3,377,255)

### Deductions

Retirees' pension benefits	28,052,593
Administrative expenses	<u>954,593</u>
Total deductions	<u>29,007,186</u>

**Net Change in Plan Net Position Restricted for Pensions** (32,384,441)

**Plan Net Position Restricted for Pensions - Beginning of year** 491,726,795

**Plan Net Position Restricted for Pensions - End of year** \$ 459,342,354

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 1 - 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, 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. 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 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, 2015

### 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 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 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, 2015, pension plan membership consisted of the following:

Retirees and beneficiaries	1,106
Inactive plan members entitled to but not yet receiving benefits	213
Active plan members	30

The plan is closed to all new hires after April 1, 2013, except for those new hires that are hired under the 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.

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### 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 and may be amended by the board of trustees in accordance with city ordinance, union contracts, and plan provisions. For the year ended December 31, 2015, 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, 2015:

<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

**Rate of Return** - For the year ended December 31, 2015, the annual money-weighted rate of return, net of expenses on system investments, was -0.84 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 2 - Pension Plan (Continued)

#### 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, 2015 are as follows:

	<u>Required Reserve Balance</u>
Retiree reserve	\$ 238,749,619
Employee reserve	722,620

#### Net Pension Asset of the City

The net pension asset of the City of Pontiac has been measured as of December 31, 2015, based on benefits in force as of that date and is composed of the following:

Total pension liability	\$ 252,615,769
Plan fiduciary net position	<u>(459,342,354)</u>
City's net position asset	<u>\$ (206,726,585)</u>

Plan fiduciary net position as a percentage of the total pension liability	181.83 %
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**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2015, which used update procedures to roll forward the estimated asset as of December 31, 2014 to December 31, 2015. The valuation used the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases	4.5-9.4 % Average, including inflation
Investment rate of return	7.5 % Net of pension plan investment expense, including inflation

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 2 - Pension Plan (Continued)

Mortality rates were based on the RP-2014 Blue Collar 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's 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, 2015 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:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity - Large cap	5.30%
Domestic equity - Mid cap	6.00
Domestic equity - Small cap	6.50
International equity	5.80
Fixed-income - Domestic investment grade	1.80
Fixed-income - High yield	4.10
Private equity	7.60

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 2 - Pension Plan (Continued)

**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	\$ 182,824,385	\$ 206,726,585	\$ 228,655,295

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 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.

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 3 - 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 average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Asset-backed securities	\$ 5,191,607	3.70 years
Commercial mortgage pools	4,536,937	27.83 years
Corporate bonds	30,083,490	6.81 years
Government agencies	1,825,779	4.93 years
Government bonds	22,205,611	7.00 years
Government mortgage-backed securities	14,003,486	24.90 years
Government issued commercial mortgage backed	188,700	0.91 years
Index linked government bonds	1,725,250	9.05 years
Municipal/provincial bonds	7,698,650	7.40 years
Nongovernment-backed commercial mortgage obligations	94,444	20.25 years
Short-term investment funds	14,420,541	Unavailable



# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Moody's
Asset-backed securities	\$ 1,684,525	Aaa
Asset-backed securities	293,996	Aa
Asset-backed securities	49,420	A
Asset-backed securities	201,830	Baa
Asset-backed securities	2,961,836	Unrated
Commercial mortgage-backed securities	2,838,808	Aaa
Commercial mortgage-backed securities	1,519,666	Aa
Commercial mortgage-backed securities	178,464	Baa
Corporate bonds	1,527,971	Aa
Corporate bonds	6,864,959	A
Corporate bonds	13,144,215	Baa
Corporate bonds	830,281	Ba
Corporate bonds	4,491,684	B
Corporate bonds	3,221,381	Caa
Government agency notes and debentures	24,220,646	Aaa
Government agency notes and debentures	878,596	Aa
Government mortgage-backed securities	846,099	Unrated
Nongovernment-backed CMOs	8,983	A
Nongovernment-backed CMOs	85,459	Unrated
Short-term investment funds	14,420,541	Unrated
Municipal/Provincial bonds	1,839,969	Aaa
Municipal/Provincial bonds	3,384,480	Aa
Municipal/Provincial bonds	2,474,200	Unrated

# City of Pontiac General Employees' Retirement System

## Notes to Financial Statements December 31, 2015

### Note 3 - 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, 2015, 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 \$20,254,685. At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation loss of \$1,720,059 related to equity investments.

Security	Fair Market Value
Australian Dollar	\$ 1,222,138
British Pound	3,715,865
Canadian Dollar	996,697
Denmark Krone	3,890,622
European Euro	1,535,666
Hong Kong Dollar	1,309,310
Japanese Yen	3,357,941
Mexican Peso	693,167
South African Rand	380,304
Swiss Franc	3,102,975

### Note 4 - 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**

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# City of Pontiac General Employees' Retirement System

## Required Supplemental Information Schedule of Changes in the Plan Net Pension Liability and Related Ratios Last Two Fiscal Years (Schedule is built prospectively upon implementation of GASB Statement No. 67)

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 301,489	\$ 279,188
Interest	19,232,034	19,973,828
Changes in benefit terms	5,407,365	-
Differences between expected and actual experience	(23,548,600)	(2,538,358)
Changes in assumptions	9,124,140	-
Benefit payments, including refunds	(28,052,593)	(27,494,450)
<b>Net Change in Total Pension Liability</b>	(17,536,165)	(9,779,792)
<b>Total Pension Liability - Beginning of year</b>	270,151,934	279,931,726
<b>Total Pension Liability - End of year</b>	<b>\$ 252,615,769</b>	<b>\$ 270,151,934</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ -	\$ -
Contributions - Member	-	-
Net investment income	(3,414,613)	29,515,688
Administrative expenses	(954,593)	(784,783)
Benefit payments, including refunds	(28,052,593)	(27,494,450)
Other	37,358	17,453
<b>Net Change in Plan Fiduciary Net Position</b>	(32,384,441)	1,253,908
<b>Plan Fiduciary Net Position - Beginning of year</b>	491,726,795	490,472,887
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 459,342,354</b>	<b>\$ 491,726,795</b>
<b>City's Net Pension Asset - Ending</b>	<b>\$ (206,726,585)</b>	<b>\$ (221,574,861)</b>
<b>Plan Fiduciary Net Position as a Percent of Total Pension Asset</b>	181.83 %	182.02 %
<b>Covered Employee Payroll</b>	\$ 1,528,731	\$ 1,478,241
<b>City's Net Pension Asset as a Percent of Covered Employee Payroll</b>	(13,512.0)%	(14,989.1)%

# City of Pontiac General Employees' Retirement System

## Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,695
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	15,695
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 1,528,731</b>	<b>\$ 1,478,241</b>	<b>\$ 1,574,964</b>	<b>\$ 2,742,912</b>	<b>\$ 3,968,743</b>	<b>\$ 9,493,229</b>	<b>\$ 14,414,481</b>	<b>\$ 14,414,486</b>	<b>\$ 13,559,473</b>	<b>\$ 14,996,753</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

### 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 and a 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, 2015 were determined based on the actuarial valuation as of December 31, 2012. The most recent valuation is as of December 31, 2015.

Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	20% Phase-In Method. Actuarial value of assets, adjusted by 20% of the investment return of actual market value
Inflation	2.75%
Salary increases	4.5%-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	RP-2014 Blue Collar, with general improvements using the MP-2015 scale
Other information	Post-retirement adjustment Hospital No cost of living adjustment MAPE 2.50% of original retirement income for 14 years, maximum of 35% PMEA 2.00% of original retirement income for 14 years, maximum of 28% All Others 2.00% of original retirement income for 18 years, maximum of 36%

# **City of Pontiac General Employees' Retirement System**

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## **Required Supplemental Information Schedule of Investment Returns Last Two Fiscal Years (Schedule is Built Prospectively Upon Implementation of GASB Statement No. 67)**

	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return - Net of investment expense	(0.84)%	6.8 %