
City of Pontiac General Employees' Retirement System

**Financial Report
with Supplemental Information
December 31, 2018**

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, 2018, 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, 2018 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 10, 2019

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:

	<u>2018</u>	<u>2017</u>
Total assets	\$ 455,075,469	\$ 507,270,249
Total liabilities	901,549	833,572
Net Position Restricted for Pensions	\$ 454,173,920	\$ 506,436,677
Net Investment Income (loss)	\$ (23,328,559)	\$ 67,868,606
Other- Miscellaneous and litigation revenue	47,079	29,291
Retiree pension and annuity benefits	(28,199,310)	(26,916,912)
General and administrative expenses	(781,967)	(696,340)
Net increase (decrease) in net position restricted for pensions	\$ (52,262,757)	\$ 40,284,645

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, 2018:

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

Management's Discussion and Analysis

Investment Results

A review of the commentary and analysis of global financial markets for 2018 can best be summarized by paraphrasing Martha Reeves and the Vandellas: there was nowhere to run and nowhere to hide. Almost without exception, global indices were down. Volatility – which had fallen to record lows in 2017 – spiked sharply higher. Trade-related tensions with China, concerns about slowing global growth, regulatory and other uncertainty in the tech sector and trepidation about the Federal Reserve's continued rate increases gave investors pause.

One widely watched market indicator is yield curve inversion. Yield curve inversion occurs when long-term rates drop below those on shorter-dated bonds and has historically been a reliable indicator that a recession is coming. Although, the yields between the 2-year and 10-year treasuries tightened, they did not invert: but, the portion of the yield curve between the 3-year and the 5-year treasuries did invert for a brief period in December. Some believe that this time is different and attribute the distortion in yields to the Federal Reserve's years of quantitative easing through its asset purchase program. Undaunted by external guidance, the Federal Reserve continued to tighten monetary policy by raising rates four times in 2018. Its' benchmark federal funds rates ended the year at 2.5%.

The declines in financial markets overshadowed other positive news about the U.S. economy. GDP grew by 2.9%; the dollar continued to gain, rising 4.3% and the unemployment rate reached its lowest level since 1969, falling to 3.9%.

The Barclay's U.S. Aggregate Index was flat for the year; the NCREIF ODCE (real estate) was up 8.2%; the Standard & Poor's 500 was down (4.38%); the MSCI EAFE Index (developed markets international stocks) was down (13.79%) and the MSCI Emerging Markets Index was down (14.58%). The total plan loss was (4.89%) for the year.

Plan Sponsor Financial Condition/Plan Update

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 and the 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 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.

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, 2018

Assets

Cash and cash equivalents (Note 4)	\$ 420,321
Investments at fair value: (Note 4)	
Short-term investments	12,403,127
Government agency notes and debentures	62,163,411
Corporate and other bonds	14,971,522
Domestic equities	226,259,625
Private equity	11,477,137
U.S. government mortgage-backed securities	31,780,555
Commercial mortgage pools	1,727,405
Asset-backed securities	1,222,866
Limited partnerships	51,433,793
Foreign equities	39,966,376
Receivables:	
Accrued interest receivable	1,240,663
Other receivables	8,668
Total assets	455,075,469

Liabilities - Accounts payable and other	901,549
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Net Position - Restricted for pensions	\$ 454,173,920
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City of Pontiac General Employees' Retirement System

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2018

Additions

Investment income (loss):	
Interest and dividends	\$ 9,235,936
Net decrease in fair value of investments	(29,725,262)
Less investment advisor fees	<u>(2,839,233)</u>
Net investment loss	(23,328,559)
Miscellaneous income	<u>47,079</u>
Total additions	(23,281,480)

Deductions

Retirees' pension benefits	28,199,310
Administrative expenses	<u>781,967</u>
Total deductions	<u>28,981,277</u>

Net Change in Fiduciary Net Position Restricted for Pensions (52,262,757)

Fiduciary Net Position Restricted for Pensions - Beginning of year 506,436,677

Fiduciary Net Position Restricted for Pensions - End of year \$ 454,173,920

December 31, 2018

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

In early 2013, the City of Pontiac, Michigan (the plan sponsor) 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 City's financial condition is improving, and the City has consistently improved its General Fund fund balance in the past two years. 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 22 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.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2018

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.

Plan Membership

At December 31, 2018, pension plan membership consisted of the following:

Retirees and beneficiaries	1,123
Inactive plan members entitled to but not yet receiving benefits	118
Active plan members	29
	<hr/>
Total employees covered by the plan	1,270
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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 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, and Ordinance #2346, which further extended the benefit through August 31, 2018. During fiscal year 2018, the City issued Ordinance #2356 to extend the \$400 temporary benefit increase, which were paid out to retirees; the \$400 additional benefit will be paid through August 2019.

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, 2018, 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.

December 31, 2018

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, 2018:

Asset Class	Target Allocation
Domestic equity - Large cap	20.00 %
Domestic equity - Mid cap	17.50
Domestic equity - Small cap	12.50
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, 2018, the annual money-weighted rate of return, net of expenses on system investments, was (4.63) 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, 2018 are as follows:

	Required Reserve
Retiree reserve	\$ 225,505,181
Employee reserve	318,449

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2018

Note 3 - Net Pension Asset of the City

The components of the net pension asset of the City of Pontiac, Michigan at December 31, 2018 were as follows:

Total pension liability	\$ 262,188,735
Plan fiduciary net position	<u>(454,173,920)</u>
City's net pension asset	<u>\$ (191,985,185)</u>
Plan fiduciary net position as a percentage of the total pension liability	(173.22)%

Actuarial Assumptions

The total pension asset was determined by an actuarial valuation as of December 31, 2018. 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, 2018 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	4.95 %
Domestic equity - Mid cap	5.71
Domestic equity - Small cap	5.71
International equity	5.24
Emerging markets equity	6.35
Fixed income - Core	1.99
Real estate	4.19

December 31, 2018

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 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net pension asset of the System	\$ (167,374,423)	\$ (191,985,185)	\$ (212,924,998)

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 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, 2018

Note 4 - Deposits and Investments (Continued)

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

Investment	Fair Value	Weighted-average Maturity (Years)
Asset-backed securities	\$ 1,222,866	2.62
Commercial mortgage pools	1,689,948	27.47
Corporate bonds	14,971,522	10.03
Government agencies	2,795,389	1.24
Government bonds	45,458,595	6.92
Government mortgage-backed securities	31,780,555	21.31
Government-issued commercial mortgage-backed securities	19,858	0.23
Municipal/Provincial bonds	13,889,569	2.48
Nongovernmental-backed commercial mortgage pools	37,457	16.41

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	Fair Value	Moody's
Asset-backed securities	\$ 379,578	Aaa
Asset-backed securities	843,288	Unrated
Commercial mortgage-backed securities	1,347,950	Aaa
Commercial mortgage-backed securities	341,998	Aa
Corporate bonds	172,576	Aaa
Corporate bonds	604,612	Aa
Corporate bonds	9,679,230	A
Corporate bonds	4,515,104	Baa
Government agencies	1,982,902	Aaa
Government agencies	812,487	Aa
Government bonds	43,419,605	Aaa
Short-term investment funds	12,403,127	Unrated
Municipal/Provincial bonds	1,340,942	Aaa
Municipal/Provincial bonds	6,587,306	Aa
Municipal/Provincial bonds	5,961,321	Unrated
Nongovernment-backed C.M.O.s	37,457	Unrated

December 31, 2018**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, 2018, 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 \$12,973,693.

At year end, the City of Pontiac General Employees' Retirement System had a total foreign currency translation loss of \$511,088 related to equity investments.

Security	Foreign Currency
Australian dollar	\$ 975,038
British pound	1,662,878
Canadian dollar	271,134
Denmark krone	644,970
European euro	3,714,599
Hong Kong dollar	1,613,327
Japanese yen	866,804
Mexican peso	569,773
Swedish krona	959,219
Swiss franc	1,695,951

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 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, 2018

Note 5 - Fair Value Measurements (Continued)

The System has the following recurring fair value measurements as of December 31, 2018:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	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, 2018
Assets				
Debt securities:				
U.S. Treasury securities	\$ -	\$ 45,458,595	\$ -	\$ 45,458,595
U.S. agencies	-	2,795,389	-	2,795,389
Municipal/Provincial	-	13,889,569	-	13,889,569
Commercial mortgage backed	-	1,747,263	-	1,747,263
Residential mortgage backed	-	31,780,555	-	31,780,555
Corporate bonds	-	14,971,522	-	14,971,522
Asset backed	-	1,222,866	-	1,222,866
Total debt securities	-	111,865,759	-	111,865,759
Equity securities:				
Common stock	232,064,425	-	-	232,064,425
Exchange-traded funds	875,624	-	-	875,624
Total equity securities	232,940,049	-	-	232,940,049
Private equity funds	-	-	11,477,137	11,477,137
Short-term investment fund	12,403,127	-	-	12,403,127
Total investments by fair value level	<u>\$ 245,343,176</u>	<u>\$ 111,865,759</u>	<u>\$ 11,477,137</u>	368,686,072
Investments measured at NAV:				
International equities				37,289,685
Domestic equities fund				13,203,319
Real estate funds				34,226,741
Total investments measured at NAV				<u>84,719,745</u>
Total investments measured at fair value				<u>\$ 453,405,817</u>

The fair value of debt securities at December 31, 2018 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.

The fair value of private equity investments at December 31, 2018 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 million in unfunded commitments to these funds.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the following table. The fair value at December 31, 2018 was determined based on NAV per share of the System's ownership interest in the partners' capital.

City of Pontiac General Employees' Retirement System

Notes to Financial Statements

December 31, 2018

Note 5 - Fair Value Measurements (Continued)

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 December 31, 2018, 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	\$ 37,289,685	\$ -	Daily/Monthly	10 days
Domestic equity fund	13,203,319	-	Daily	10 days
Real estate funds	34,226,741	-	Monthly/Quarterly	10 - 180 days
Total investments measured at NAV	<u>\$ 84,719,745</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.

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 City Council, and the IRS among others. As of May 8, 2019, the City is in the process of preparing the necessary documents to be filed with the IRS. If fully approved by all parties, 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.

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

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 242,405	\$ 255,665	\$ 324,671	\$ 301,489	\$ 279,188
Interest	17,725,816	17,598,425	17,944,933	19,232,034	19,973,828
Changes in benefit terms	3,470,936	10,658,814	-	5,407,365	-
Differences between expected and actual experience	1,839,373	871,705	5,189,027	(23,548,600)	(2,538,358)
Changes in assumptions	-	-	15,686,953	9,124,140	-
Benefit payments, including refunds	(28,199,310)	(26,916,912)	(27,119,534)	(28,052,593)	(27,494,450)
Net Change in Total Pension Liability	(4,920,780)	2,467,697	12,026,050	(17,536,165)	(9,779,792)
Total Pension Liability - Beginning of year	267,109,515	264,641,818	252,615,768	270,151,934	279,931,726
Total Pension Liability - End of year	\$ 262,188,735	\$ 267,109,515	\$ 264,641,818	\$ 252,615,769	\$ 270,151,934
Plan Fiduciary Net Position					
Net investment (loss) income	\$ (23,328,559)	\$ 67,868,606	\$ 34,606,547	\$ (3,414,613)	\$ 29,515,688
Administrative expenses	(781,967)	(696,340)	(683,083)	(954,593)	(784,783)
Benefit payments, including refunds	(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	(52,262,757)	40,284,645	6,809,678	(32,384,441)	1,253,908
Plan Fiduciary Net Position - Beginning of year	506,436,677	466,152,032	459,342,354	491,726,795	490,472,887
Plan Fiduciary Net Position - End of year	\$ 454,173,920	\$ 506,436,677	\$ 466,152,032	\$ 459,342,354	\$ 491,726,795
City's Net Pension Asset - Ending	\$ (191,985,185)	\$ (239,327,162)	\$ (201,510,214)	\$ (206,726,585)	\$ (221,574,861)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	173.22 %	189.60 %	176.14 %	181.83 %	182.02 %
Covered Payroll	\$ 1,427,628	\$ 1,450,352	\$ 1,540,472	\$ 1,528,731	\$ 1,478,241
City's Net Pension Asset as a Percentage of Covered Payroll	(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**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	-
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 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	\$ 14,414,481
Contributions as a Percentage of Covered Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

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, 2018 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2018.

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
Wage 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 on 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

City of Pontiac General Employees' Retirement System

Required Supplemental Information Schedule of Investment Returns

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

	2018	2017	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	(4.63)%	15.31 %	7.79 %	(0.80)%	6.80 %

City of Pontiac General Employees' Retirement System

Note to Pension Required Supplemental Information Schedules

December 31, 2018

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.

Fiscal Year 2015 Changes

Changes in in Benefit Terms

1. 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

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