

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

FINANCIAL STATEMENTS
(With Supplementary Information)

December 31, 2022



CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITOR'S REPORT

February 20, 2024

To the Boards of Trustees
City of Pontiac General Employees' Retirement System and
City of Pontiac Reestablished General Employees' Retirement System

Opinion

We have audited the financial statements of the City of Pontiac General Employees' Retirement System and the City of Pontiac Reestablished General Employees' Retirement System (collectively, the "Systems"), pension trust funds of the City of Pontiac, Michigan (the "City"), which comprise the statements of fiduciary net position as of December 31, 2022, and the related statements of changes in fiduciary net position for the year then ended, as well as the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Systems as of December 31, 2022, and the changes in their fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements" section of our report. We are required to be independent of the Systems and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matter — Reporting Entity

As discussed in Note A, the Systems are included in the annual comprehensive financial report of the City. The accompanying financial statements present only the Systems and do not purport to, and do not, present fairly the financial position of the City as of December 31, 2022, and the changes in its financial position for the year then ended, in accordance with U.S. GAAP. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

The Systems' management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Systems' ability to continue as going concerns for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. *Reasonable assurance* is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS:

- We exercise professional judgment and maintain professional skepticism throughout the audit.
- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and we design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audits of the Financial Statements (continued)

- We obtain an understanding of internal control relevant to the audit 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 Systems' internal control. Accordingly, no such opinion is expressed.
- We evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and we evaluate the overall presentation of the financial statements.
- We conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Systems' ability to continue as going concerns for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis on pages 4 through 9 and the pension information on pages 32 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplementary information in accordance with U.S. GAAS, 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.

GJC CPAs & Advisors

Detroit, Michigan

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2022

This section of the annual report of the City of Pontiac General Employees' Retirement System (the "GERS") and the City of Pontiac Reestablished General Employees' Retirement System (the "RGERS") (collectively, the "Systems") presents management's discussion and analysis of the Systems' financial performance during the plan year that ended on December 31, 2022. Please read it in conjunction with the Systems' financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Overall Fund Structure and Objectives

The Systems exist to pay benefits to their members and retirees. Active members earn service credit that entitles them to receive benefits in the future. As a result of the Systems' funding status, there are no actuarially required contributions, which has resulted in benefit payments exceeding contributions. 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 Systems have established asset allocation policies that are expected to deliver sufficient investment income over a long period of time to satisfy the obligations to pay the benefits promised to the members of the Systems. The following is a summary of the adopted asset allocation as of December 31, 2022:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equities	50 %
Domestic fixed income	25
International equities	5
Emerging markets	5
Real estate	10
Private equities	5
	<u>100 %</u>

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2022

FINANCIAL HIGHLIGHTS (CONTINUED)

Investment Results

The year 2022 presented an unprecedented amount of volatility in the market. In fact, if there was one word or identifier to best describe the reason for volatility it would be – inflation. After three years of extraordinarily strong returns for the S&P 500, in March 2022, the Federal Reserve began raising interest rates to slow down the economy. The impact of the decision to raise rates was felt on a personal level and displayed in the investment performance. The U.S. Bureau of Labor Statistics reported that consumer prices increased by 6.5 percent on all items from December 2021 to December 2022. As a result, daily needs, housing, and lending became more expensive. Many Americans relied on their credit cards to survive. Nearly 8.4 million Americans held multiple jobs in October 2022, which represented 5.2 percent of the workforce. Investment performance experienced the wrath of market volatility in the first quarter of 2022 as investors reacted to rate increases. Fixed income securities yielded an unprecedented and historically inferior year-end performance since inception in 1976. The Bloomberg Barclays Aggregate Bond Index generated a total return of (13) percent. World and U.S. equities generated rates of return at (17.7) percent and (18.1) percent, respectively, at year-end. In other words, as it relates to exposure to market volatility, there was no place for equities to hide – it was the worst American stock decline since 2008.

Market corrections and volatility are both integral in investing and expected. Diversification is the key component to hedge market swings. Knee-jerk reactions to the market often lead to huge losses in investment capital. The Boards of Trustees for the Systems work diligently and meticulously with their investment consultant to create a robust long-term investment diversification strategy to hedge risk, with a focus on growing the assets in the portfolio with as little market risk as possible. The 2022 actuarial report reflected a 191.9 percent funding ratio at an assumed rate of return of six percent. The valuation performed in accordance with GASB Statement No. 68 reflected a long-term real mean return of 6.94 percent as of December 31, 2022.

The Labor Department's monthly non-farm payrolls report showed steady job growth throughout 2022, while the average unemployment rate dropped to low of 3.6 percent by year-end, reflecting a 0.6 percent decrease from 2021. The year ended with a Consumer Price Index increase of 6.5 percent.

The S&P 500 Index returned (18.1) percent for the year, the Barclay's U.S. Aggregate Index returned (13.0) percent, the NCREIF ODCE (real estate) returned 7.5 percent, the MSCI EAFE Index (developed markets international stocks) returned (14.0) percent, and the MSCI Emerging Markets Index returned (19.7) percent. The total loss for the Systems was (18.07) percent for the year.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2022

FINANCIAL HIGHLIGHTS (CONTINUED)

Plan Sponsor Financial Condition and Update

The settlement agreement which was reached in the retiree health care litigation was approved by the court in 2018. In March 2021, the Internal Revenue Service approved the City of Pontiac's (the "City") request to terminate the GERS, effective March 31, 2021, establish the RGERS, effective April 1, 2021, and transfer the excess assets to a newly created trust, the City of Pontiac VEBA Trust (the "VEBA Trust"), to provide the funding for retiree health care. In the first quarter of 2022, transfers were made to the RGERS and the VEBA Trust in compliance with the terms of the settlement agreement. The remaining funds in the GERS are held in trust until a final settlement is reached with the City and the VEBA Trust.

The RGERS is currently overfunded, and no employer contributions are required at this time. Should remaining funds in the GERS be transferred out and result in an insufficient funding level, contributions from the City to the RGERS may be required in the future. There is uncertainty regarding the City's ability to make contributions to the RGERS.

Effective April 1, 2013, the GERS was closed to all new hires except those hired pursuant to the Michigan Association of Public Employees ("MAPE") collective bargaining agreement with the City. In 2022, MAPE approved an agreement that closed the RGERS to all new hires, effective July 1, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains the Systems' financial statements, which consist of the statements of fiduciary net position and the statements of changes in fiduciary net position (presented on pages 10 and 11). These financial statements report information about the Systems as a whole using accounting methods similar to those used by private-sector pension plans. The statements of fiduciary net position include all of the Systems' assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's increases and decreases in the Systems' net position are accounted for in the statements of changes in fiduciary net position, under the accrual basis of accounting.

These financial statements report the Systems' net position and how it has changed. Net position represents the difference between the Systems' total of assets and deferred outflows of resources and their total of liabilities and deferred inflows of resources, and it represents one way to measure the Systems' financial health, or position. Over time, increases or decreases in the Systems' net position may be affected by several variables, such as contributions, investment performance, participant distributions during the current year due to retirements, terminations, and the Systems' administrative expenses.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements, which begin on page 12, explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE SYSTEMS AS A WHOLE

Table 1
Condensed Statements of Fiduciary Net Position
December 31, 2022 and 2021

	2022		2021	
	GERS	RGERS	Total (Memorandum Only)	GERS
Assets:				
Investments	\$ 51,299,481	\$ 381,478,937	\$ 432,778,418	\$ 596,130,689
Other assets	228,595	1,432,582	1,661,177	3,642,384
Total Assets	51,528,076	382,911,519	434,439,595	599,773,073
Liabilities	472,020	674,685	1,146,705	785,225
Net Position Restricted for Pensions	\$ 51,056,056	\$ 382,236,834	\$ 433,292,890	\$ 598,987,848

The assets reported above reflect the total value of assets held in the GERS and RGERS accounts. Assets transferred out of the pension trust to the VEBA Trust are not reflected in the December 31, 2022 columns. The market value of assets held within the GERS and the RGERS was over \$433 million.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2022

FINANCIAL ANALYSIS OF THE SYSTEMS AS A WHOLE (CONTINUED)

Table 2
Condensed Statements of Changes in Fiduciary Net Position
For the Years Ended December 31, 2022 and 2021

	2022			2021
	GERS	RGERS	Total (Memorandum Only)	GERS
Additions:				
Net appreciation in fair value of investments	\$ -0-	\$ -0-	\$ -0-	\$ 81,034,133
Transfer of assets from GERS		443,006,450	443,006,450	-0-
Other income	1,585,312	2,581,149	4,166,461	3,744,577
Total Additions	1,585,312	445,587,599	447,172,911	84,778,710
Deductions:				
Net depreciation in fair value of investments	30,403,511	40,971,348	71,374,859	-0-
Participant benefit payments		21,757,276	21,757,276	26,890,294
Administrative expenses	10,771	622,141	632,912	799,944
Transfer of assets to RGERS	443,006,450		443,006,450	-0-
Transfers to City of Pontiac	76,096,372		76,096,372	8,000,000
Total Deductions	549,517,104	63,350,765	612,867,869	35,690,238
Change in Net Position Restricted for Pensions	(547,931,792)	382,236,834	(165,694,958)	49,088,472
Net Position Restricted for Pensions, Beginning of Year	598,987,848	-0-	598,987,848	549,899,376
Net Position Restricted for Pensions, End of Year	\$ 51,056,056	\$ 382,236,834	\$ 433,292,890	\$ 598,987,848

The table above illustrates the transfer activity in 2022, as well as the net position of the GERS and the RGERS.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2022

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the funds they hold. If you have any questions about this report or need additional financial information, contact the Systems' office at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

December 31, 2022

	City of Pontiac General Employees' Retirement System	City of Pontiac Reestablished General Employees' Retirement System	Total (Memorandum Only)
Assets:			
Investments, at fair value or net asset value (Note C):			
Common stocks	\$ 28,528,688	\$ 162,702,829	\$ 191,231,517
Corporate bonds	1,038,891	17,171,483	18,210,374
Government bonds	3,156,462	12,885,543	16,042,005
Municipal and provincial bonds	9,486,240	24,453,958	33,940,198
Government agency notes	2,160,676	7,690,999	9,851,675
U.S. government mortgage-backed securities	440,982	14,218,989	14,659,971
Residential and other asset-backed securities	247,408	5,605,253	5,852,661
Short-term investments	5,970,124	13,680,130	19,650,254
International equities	270,010	9,753,729	10,023,739
Private equity funds		7,256,752	7,256,752
Commingled funds:			
Domestic		28,803,929	28,803,929
International		27,557,267	27,557,267
Real estate funds		49,698,076	49,698,076
	51,299,481	381,478,937	432,778,418
Other assets:			
Cash and cash equivalents	10,016	70,624	80,640
Accrued interest receivable	218,579	690,700	909,279
Other receivables		671,258	671,258
	228,595	1,432,582	1,661,177
	51,528,076	382,911,519	434,439,595
Liabilities:			
Accounts payable and other liabilities	472,020	674,685	1,146,705
	\$ 51,056,056	\$ 382,236,834	\$ 433,292,890

See notes to financial statements.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2022

	City of Pontiac General Employees' Retirement System	City of Pontiac Reestablished General Employees' Retirement System	Total (Memorandum Only)
Additions:			
Investment income:			
Interest and dividends	\$ 1,590,561	\$ 5,116,614	\$ 6,707,175
Total Investment Income	1,590,561	5,116,614	6,707,175
Less: Investment expenses	(44,719)	(2,565,873)	(2,610,592)
Net Investment Income	1,545,842	2,550,741	4,096,583
Miscellaneous income	39,470	30,408	69,878
Plan-to-plan resource movement (Note A)		443,006,450	443,006,450
Total Additions	1,585,312	445,587,599	447,172,911
Deductions:			
Net depreciation in fair value of investments	30,403,511	40,971,348	71,374,859
Participant benefit payments		21,757,276	21,757,276
Administrative expenses	10,771	622,141	632,912
Plan-to-plan resource movement (Note A)	443,006,450		443,006,450
Transfers to City of Pontiac	76,096,372		76,096,372
Total Deductions	549,517,104	63,350,765	612,867,869
Change in Net Position Restricted for Pensions	(547,931,792)	382,236,834	(165,694,958)
Net Position Restricted for Pensions, Beginning of Year	598,987,848	-0-	598,987,848
Net Position Restricted for Pensions, End of Year	\$ 51,056,056	\$ 382,236,834	\$ 433,292,890

See notes to financial statements.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A — DESCRIPTION OF THE SYSTEMS

Reporting Entity

The City of Pontiac, Michigan (the “City”) sponsors and administers the City of Pontiac General Employees’ Retirement System (the “GERS”) and the City of Pontiac Reestablished General Employees’ Retirement System (the “RGERS”) (collectively, the “Systems”), contributory single-employer retirement plans. The financial statements of the Systems are also included in the financial statements of the City as pension trust funds. The assets of the pension trust funds include no securities of, or loans to, the City or any other related party.

System Administration

The Systems’ Boards of Trustees (the “Boards”) administer the single-employer defined benefit pension plans that provide pensions for substantially all permanent full-time general employees of the City, except police and fire employees. Benefit terms have been established by contractual agreements between the City and the various employee union representatives.

Each of the Boards consists of 11 members, as follows:

- A member of the Pontiac City Council (the “City Council”) to be selected by the City Council
- The mayor of the City
- The finance director of the City
- 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
- One hospital member (who may be a deferred vested member or a retired member) of the Systems who was formerly employed by Pontiac General Hospital, elected via an election conducted by the hospital with the assistance of the retirement office

Plan-to-Plan Resource Movement

In March 2021, the Internal Revenue Service approved the City’s request to terminate the GERS, to establish a new plan, the RGERS, and to transfer the excess assets to a newly created voluntary employees’ beneficiary association (“VEBA”), the City of Pontiac VEBA Trust (the “VEBA Trust”), to provide funding for retiree health care. The movement of resources occurred in 2022. The amount of net position transferred from the GERS to the RGERS was \$443,006,450, and the amount of the pension liability transferred was \$270,854,065.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE A — DESCRIPTION OF THE SYSTEMS (CONTINUED)

Contributions

Article 9, Section 24 of the State of Michigan (the "State") Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Boards retain 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 the Systems' members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of the Systems' members are established in accordance with City ordinances, union contracts, and plan provisions. For the year ended December 31, 2022, the active members were not required to contribute to the Systems. The City is required to contribute at an actuarially determined rate. In accordance with the actuary's recommendation, the City was not required to make a contribution to the Systems during the current year.

Pension Benefits

The Systems provide 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 Systems was established by City ordinance and negotiation with the employees' collective bargaining units.

In 2013, Ordinance No. 2300 was passed 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 the following ordinances to extend payment of this benefit increase:

- Ordinance No. 2327, extending the increase through August 31, 2016
- Ordinance No. 2337, extending the increase through August 31, 2017
- Ordinance No. 2346, extending the increase through August 31, 2018
- Ordinance No. 2356, extending the increase through August 31, 2019
- Ordinance No. 2369, extending the increase through August 31, 2020
- Ordinance No. 2377, extending the increase through August 31, 2021
- Ordinance No. 2385, extending the increase through December 31, 2021
- Ordinance No. 2389, extending the increase through December 31, 2022

Ordinances No. 2385 and No. 2389 extend the temporary increase through December 31, 2021 and 2022, respectively, or when the VEBA Trust begins providing health care benefits to retirees, whichever comes first.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE A — DESCRIPTION OF THE SYSTEMS (CONTINUED)

System Participants

The number of RGRS participants as of December 31, 2022 is as follows:

Retirees and beneficiaries	1,017
Vested inactive members	88
Vested active members	<u>17</u>
	<u><u>1,122</u></u>

There are no participants in the GERS as of December 31, 2022.

The GERS was closed to all new hires after April 1, 2013, except for those new hires who are hired under the Michigan Association of Public Employees (“MAPE”, representing the 50th District Court employees) collective bargaining agreement. In 2022, MAPE approved an agreement that closed the RGRS to all new hires, effective July 1, 2022.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Systems’ financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Member contributions are recognized in the period in which the contributions are due. The City’s 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 document. Administrative expenses are financed through investment earnings.

Net Position Restricted for Pensions

Net position restricted for pensions includes the following reserves:

Retiree Reserve

The retiree reserve is 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 City.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Restricted for Pensions (continued)

Employee Reserve

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 four percent. Balances are returned to employees who terminate before vesting in the Systems. For those who stay until retirement, the balances are transferred into the retiree reserve.

The reserve balances of the RGERS as of December 31, 2022 are as follows:

Retiree reserve	\$ 260,262,979
Employee reserve	129,947

The GERS has no reserve balances as of December 31, 2022.

Investments

The Systems' investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

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 Systems' management. These estimates are determined using audited financial statements issued by the private equity companies, commingled funds, or partnerships in which such investments are held, adjusted by management as deemed appropriate, based on known circumstances.

There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the trade date, which is the date when the transaction is initiated. Net appreciation and depreciation include gains and losses on investments bought and sold, as well as held, during the year.

Fair Value Measurements

The Systems use fair value measurements in the preparation of their financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Systems utilize market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Systems apply assumptions that market participants would use in pricing an asset or liability, including an assumption about market risk.

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Systems have the ability to access
- Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

NOTE C — DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Michigan 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 Systems are allowed to invest in the following:

- 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 mature no more than 270 days after the date of purchase
- Obligations of the State or its political subdivisions that are rated as investment grade
- Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan

The Systems are also authorized by Michigan Public Act 314 of 1965, as amended ("Act 314"), 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 Systems' assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Systems have designated one bank for the deposit of its funds. The investment policy adopted by the Boards in accordance with Michigan Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 347 of 2012, as amended. The Systems' deposit and investment policies are in accordance with statutory authority.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Allocation Policy

The Systems' policy in regard to the allocation of invested assets is established, and may be amended, by the Boards by a majority vote of their members. It is the Boards' policy to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Systems' 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 adopted asset allocation policies as of December 31, 2022 are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equities:	
All cap	14 %
Large cap	10
Mid cap	15
Small cap	11
International equities	5
Emerging markets equities	5
Fixed income:	
Core	25
Real estate	10
Private equities	5
	<u>100 %</u>

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value

The Systems' fair value hierarchy for those assets measured on a recurring basis as of December 31, 2022 is summarized as follows:

	<u>Fair Value Measurements</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
GERS				
Assets:				
Investments at fair value:				
Common stocks	\$ 28,528,688	\$ -0-	\$ -0-	\$ 28,528,688
Corporate bonds		1,038,891		1,038,891
Government bonds		3,156,462		3,156,462
Municipal and provincial bonds		9,486,240		9,486,240
Government agency notes		2,160,676		2,160,676
U.S. government mortgage- backed securities		440,982		440,982
Residential and other asset-backed securities		247,408		247,408
Short-term investments	5,970,124			5,970,124
International equities	270,010			270,010
Total Investments	\$ 34,768,822	\$ 16,530,659	\$ -0-	\$ 51,299,481

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value (continued)

	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
RGERS				
Assets:				
Investments at fair value:				
Common stocks	\$ 162,702,829	\$ -0-	\$ -0-	\$ 162,702,829
Corporate bonds		17,171,483		17,171,483
Government bonds		12,885,543		12,885,543
Municipal and provincial bonds		24,453,958		24,453,958
Government agency notes		7,690,999		7,690,999
U.S. government mortgage- backed securities		14,218,989		14,218,989
Residential and other asset-backed securities		5,605,253		5,605,253
Short-term investments	13,680,130			13,680,130
International equities	9,753,729			9,753,729
Private equity funds			7,256,752	7,256,752
Total Investments at Fair Value	\$ 186,136,688	\$ 82,026,225	\$ 7,256,752	275,419,665
Investments measured at net asset value:				
Commingled funds:				
Domestic				28,803,929
International				27,557,267
Real estate funds				49,698,076
Total Investments Measured at Net Asset Value				106,059,272
Total Investments				\$ 381,478,937

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at Net Asset Value

The Systems hold shares or interests in investment assets for which the fair value of the investments is measured on a recurring basis using net asset value (“NAV”) per share (or its equivalent) of the assets as a practical expedient. Investments in commingled funds consist of funds that invest primarily in domestic, international, and emerging markets publicly traded equities, as well as an investment in a limited partnership that invests in international publicly traded equities. Investments in real estate funds consist of partnerships and separate account insurance contracts that invest primarily in commercial real estate. The fair values of these investments have been estimated using the NAV per share of the Systems’ ownership interest in partners’ capital or of the investments.

Additional information as of December 31, 2022 about the nature and risk of the RGERS’ investments that calculate NAV per share as a practical expedient is as follows:

	<u>Net Asset Value</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Commingled funds:			
Domestic	\$ 28,803,929	Daily/monthly	10 days
International	27,557,267	Daily/monthly	10 days
Real estate funds	<u>49,698,076</u>	Monthly/quarterly	10-180 days
	<u>\$ 106,059,272</u>		

There are no unfunded commitments to acquire additional units of these investments as of December 31, 2022.

The GERS does not have any investments that calculate NAV per share as a practical expedient as of December 31, 2022.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks

The Systems' deposits and investments are subject to certain types of risk, as discussed below:

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Systems' deposits may not be returned to them. State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State that are also members of a federal or national insurance corporation.

The Systems do not have a deposit policy for custodial credit risk. As of December 31, 2022, the Systems have no bank deposits (certificates of deposit, checking accounts, or savings accounts) that were uninsured or uncollateralized. The Systems continue to evaluate each financial institution with which they deposit funds and assess the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Systems would not be able to recover the value of their investments that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the entity, and are held by either the counterparty, or the counterparty's trust department or agent, but not in the entity's name.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Systems' investment policy limits investments in domestic fixed income securities so that 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. Ratings are not required for U.S. treasuries or certain money market funds.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks (continued)

Credit Risk (continued)

The Systems' investments in debt securities as of December 31, 2022 for which credit risk disclosures are required were rated as follows:

	<u>Corporate Bonds</u>	<u>Government Bonds</u>	<u>Municipal and Provincial Bonds</u>	<u>Government Agency Notes</u>	<u>Residential and Other Asset- Backed Securities</u>	<u>Short-Term Investments</u>	<u>Total</u>
GERS							
Moody's rating:							
Aaa	\$ -0-	\$ 2,553,196	\$ 966,032	\$ 1,544,391	\$ 128,524	\$ -0-	\$ 5,192,143
Aa	74,848		1,379,304				1,454,152
A	329,269		159,538				488,807
Baa	634,774				52,146		686,920
Caa					55,351		55,351
Unrated			6,981,366	616,285	11,387	5,970,124	13,579,162
	<u>\$ 1,038,891</u>	<u>\$ 2,553,196</u>	<u>\$ 9,486,240</u>	<u>\$ 2,160,676</u>	<u>\$ 247,408</u>	<u>\$ 5,970,124</u>	<u>\$ 21,456,535</u>

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks (continued)

Credit Risk (continued)

	<u>Corporate Bonds</u>	<u>Government Bonds</u>	<u>Municipal and Provincial Bonds</u>	<u>Government Agency Notes</u>	<u>Residential and Other Asset- Backed Securities</u>	<u>Short-Term Investments</u>	<u>Total</u>
RGERS							
Moody's rating:							
Aaa	\$ 85,317	\$ 11,334,288	\$ 2,478,471	\$ 6,122,272	\$ 4,808,783	\$ -0-	\$ 24,829,131
Aa	519,946		3,512,922				4,032,868
A	7,789,049		375,383				8,164,432
Baa	8,379,635				117,051		8,496,686
Caa					129,153		129,153
Unrated	397,536		18,087,182	1,568,727	550,266	13,680,130	34,283,841
	<u>\$ 17,171,483</u>	<u>\$ 11,334,288</u>	<u>\$ 24,453,958</u>	<u>\$ 7,690,999</u>	<u>\$ 5,605,253</u>	<u>\$ 13,680,130</u>	<u>\$ 79,936,111</u>

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income or debt security investments will vary unfavorably as a result of a change in interest rates. The Systems' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturities of the Systems' debt securities as of December 31, 2022 for which interest rate risk disclosures are required are as follows:

	<u>Maturity Dates</u>				<u>Total</u>
	<u>One Year or Less</u>	<u>One to Six Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>	
GERS					
Corporate bonds	\$ 323,193	\$ 715,698	\$ -0-	\$ -0-	\$ 1,038,891
Government bonds		3,156,462			3,156,462
Municipal and provincial bonds	421,845	7,737,288	1,327,107		9,486,240
Government agency notes	90,496	796,307	1,273,873		2,160,676
U.S. government mortgage- backed securities	3,195	17,400	230,618	189,769	440,982
Residential and other asset-backed securities			52,146	195,262	247,408
	<u>\$ 838,729</u>	<u>\$ 12,423,155</u>	<u>\$ 2,883,744</u>	<u>\$ 385,031</u>	<u>\$ 16,530,659</u>
RGERS					
Corporate bonds	\$ 1,480,215	\$ 8,063,749	\$ 3,150,829	\$ 4,476,690	\$ 17,171,483
Government bonds		9,943,823	756,813	2,184,907	12,885,543
Municipal and provincial bonds	1,053,836	18,845,843	4,554,279		24,453,958
Government agency notes	276,516	4,138,809	3,275,674		7,690,999
U.S. government mortgage- backed securities	2,062	913	593,012	13,623,002	14,218,989
Residential and other asset-backed securities		736,369	117,051	4,751,833	5,605,253
	<u>\$ 2,812,629</u>	<u>\$ 41,729,506</u>	<u>\$ 12,447,658</u>	<u>\$ 25,036,432</u>	<u>\$ 82,026,225</u>

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks (continued)

Foreign Currency Risk

Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The Systems restrict the amount of investments in foreign currency-denominated investments to 10 percent of the Systems' total investments. As of December 31, 2022, the only type of investment that was subject to foreign currency risk was international equities.

The RGRS' exposure to foreign currency risk in international equities as of December 31, 2022 is summarized as follows:

<u>Country</u>	<u>Currency</u>	<u>Amount</u>
Australia	Australian dollar	\$ 374,677
Canada	Canadian dollar	250,793
Denmark	Danish krone	718,306
Europe	Euro	2,207,563
Hong Kong	Hong Kong dollar	549,505
Japan	Japanese yen	565,207
Sweden	Swedish krona	524,472
Switzerland	Swiss franc	1,263,047
United Kingdom	British pound	1,035,476
		<u><u>\$ 7,489,046</u></u>

For the year ended December 31, 2022, the RGRS had a total foreign currency translation loss of \$341,000 related to international equities.

The GERS did not have any investments subject to foreign currency risk as of December 31, 2022.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an entity's investments with a single issuer.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE C — DEPOSITS AND INVESTMENTS (CONTINUED)

Deposit and Investment Risks (continued)

Concentration of Credit Risk (continued)

Other than obligations issued, assumed, or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the Systems are prohibited by Act 314 from investing in more than five percent of the outstanding obligations of any one issuer or investing more than five percent of the Systems' assets in the obligations of any one issuer. As of December 31, 2022, there were no investments that exceeded five percent or more of the Systems' total investments, other than investments in mutual funds, similar pooled investments, or investments issued, assumed, or guaranteed by the United States, its agencies, or United States government-sponsored enterprises.

Rate of Return

For the year ended December 31, 2022, the annual money-weighted rate of return on System investments, net of expenses, was (12.89) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE D — NET PENSION ASSET

The components of the net pension asset of the City as of December 31, 2022 are as follows:

Total pension liability	\$ 251,459,094
Plan fiduciary net position	<u>382,236,834</u>
City Net Pension Asset	<u><u>\$ (130,777,740)</u></u>
Plan fiduciary net position as a percentage of total pension liability	152.01%

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE D — NET PENSION ASSET (CONTINUED)

Actuarial Assumptions

The total pension liability of the RGERS was determined by an actuarial valuation as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	Two percent
Salary increases:	3.6 percent to 7.4 percent average, including wage inflation of 2.5 percent
Investment rate of return:	Six percent, net of investment expense, including inflation

Mortality assumptions were as follows:

- Actives — The Pub-2010 Amount-Weighted, General, Employee, Male and Female tables, with future mortality improvements projected generationally to 2030, using scale MP-2019
- Healthy retirees — The Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements projected generationally to 2030, using scale MP-2019, with male and female rates scaled by 95 percent
- Disabled retirees — The Pub-2010 Amount-Weighted, General, Disabled Retiree, Male and Female tables, with future mortality improvements projected generationally to 2030, using scale MP-2019

The long-term expected rate of return on the RGERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 weighing the expected future rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE D — NET PENSION ASSET (CONTINUED)

Actuarial Assumptions (continued)

The best estimates of geometric real rates of return for each major asset class included in the RGERS' target asset allocation as of December 31, 2022 (see the discussion of the Systems' investment allocation policy) are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equities:	
All cap	8.91 %
Large cap	8.90
Mid cap	10.32
Small cap	9.39
International equities	6.32
Emerging markets equities	9.38
Fixed income:	
Core	0.69
Real estate	6.16
Private equities	12.91

Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the RGERS' fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on the RGERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

NOTE D — NET PENSION ASSET (CONTINUED)

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

The following presents the net pension asset of the City, calculated using the discount rate of six percent, as well as what the City's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (five percent) or one percentage point higher (seven percent) than the current rate:

	<u>One Percent Decrease (Five Percent)</u>	<u>Current Discount (Six Percent)</u>	<u>One Percent Increase (Seven Percent)</u>
Net pension asset	\$ (107,171,498)	\$ (130,777,740)	\$ (152,425,094)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT RETURNS (UNAUDITED)

**For the Nine Years Ended December 31, 2022
(Ultimately Building to Ten Years)**

City of Pontiac General Employees' Retirement System

<u>Year Ended December 31</u>	<u>Annual Money- Weighted Rate of Return, Net of Investment Expense</u>
2014	6.80 %
2015	(0.80)
2016	7.79
2017	15.31
2018	(4.63)
2019	19.61
2020	13.19
2021	15.69

The pension liability of the City of Pontiac General Employees' Retirement System was transferred to the City of Pontiac Reestablished General Employees' Retirement System, effective January 1, 2022. Therefore, there is no investment return to present for the year ended December 31, 2022.

City of Pontiac Reestablished General Employees' Retirement System

<u>Year Ended December 31</u>	<u>Annual Money- Weighted Rate of Return, Net of Investment Expense</u>
2022	(12.89) %

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM

**SCHEDULES OF CHANGES IN CITY OF PONTIAC NET PENSION ASSET
AND RELATED RATIOS (UNAUDITED)**

**For the Nine Years Ended December 31, 2022
(Ultimately Building to Ten Years)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Changes in Total Pension Liability:				
Service cost	\$ 279,188	\$ 301,489	\$ 324,671	\$ 255,665
Interest	19,973,828	19,232,034	17,944,933	17,598,425
Changes in benefit terms	-0-	5,407,365	-0-	10,658,814
Differences between expected and actual experience	(2,538,358)	(23,548,601)	5,189,027	871,705
Changes in actuarial assumptions	-0-	9,124,140	15,686,953	-0-
Benefit payments, including refunds of member contributions	(27,494,450)	(28,052,593)	(27,119,534)	(26,916,912)
	<u>(9,779,792)</u>	<u>(17,536,166)</u>	<u>12,026,050</u>	<u>2,467,697</u>
Total Pension Liability, Beginning of Year	<u>279,931,726</u>	<u>270,151,934</u>	<u>252,615,768</u>	<u>264,641,818</u>
	<u>270,151,934</u>	<u>252,615,768</u>	<u>264,641,818</u>	<u>267,109,515</u>
Changes in Plan Fiduciary Net Position:				
Net investment income (loss)	29,515,688	(3,414,613)	34,606,547	67,868,606
Participant benefit payments, including refunds of member contributions	(27,494,450)	(28,052,593)	(27,119,534)	(26,916,912)
Administrative expenses	(784,783)	(954,593)	(683,083)	(696,340)
Other changes	17,453	37,358	5,748	29,291
	<u>1,253,908</u>	<u>(32,384,441)</u>	<u>6,809,678</u>	<u>40,284,645</u>
Plan Fiduciary Net Position, Beginning of Year	<u>490,472,887</u>	<u>491,726,795</u>	<u>459,342,354</u>	<u>466,152,032</u>
	<u>491,726,795</u>	<u>459,342,354</u>	<u>466,152,032</u>	<u>506,436,677</u>
	<u>\$ (221,574,861)</u>	<u>\$ (206,726,586)</u>	<u>\$ (201,510,214)</u>	<u>\$ (239,327,162)</u>
Ratio Information:				
Plan fiduciary net position as a percentage of total pension liability	182.02%	181.83%	176.14%	189.60%
Covered employee payroll	\$ 1,478,241	\$ 1,528,731	\$ 1,540,472	\$ 1,450,352
City of Pontiac net pension asset as a percentage of covered payroll	(14,989.09)%	(13,522.76)%	(13,081.07)%	(16,501.32)%

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM

**SCHEDULES OF CHANGES IN CITY OF PONTIAC NET PENSION ASSET
AND RELATED RATIOS (UNAUDITED) (CONTINUED)**

**For the Nine Years Ended December 31, 2022
(Ultimately Building to Ten Years)**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Changes in Total Pension Liability:				
Service cost	\$ 242,405	\$ 233,616	\$ 219,594	\$ 251,497
Interest	17,725,816	17,384,038	16,988,197	16,433,760
Changes in benefit terms	3,470,936	3,402,001	3,277,435	-0-
Differences between expected and actual experience	1,839,373	1,139,898	(2,528,619)	(6,037,890)
Changes in actuarial assumptions	-0-	-0-	40,406,912	-0-
Benefit payments, including refunds of member contributions	(28,199,310)	(28,114,053)	(27,500,762)	(26,890,294)
	<u>(4,920,780)</u>	<u>(5,954,500)</u>	<u>30,862,757</u>	<u>(16,242,927)</u>
Total Pension Liability, Beginning of Year	267,109,515	262,188,735	256,234,235	287,096,992
	<u>262,188,735</u>	<u>256,234,235</u>	<u>287,096,992</u>	<u>270,854,065</u>
Changes in Plan Fiduciary Net Position:				
Net investment income (loss)	(23,328,559)	87,449,329	65,127,780	84,736,747
Participant benefit payments, including refunds of member contributions	(28,199,310)	(28,114,053)	(27,500,762)	(26,890,294)
Administrative expenses	(781,967)	(691,928)	(652,449)	(799,944)
Transfers to City of Pontiac	-0-	-0-	-0-	(8,000,000)
Other changes	47,079	-0-	107,539	41,963
	<u>(52,262,757)</u>	<u>58,643,348</u>	<u>37,082,108</u>	<u>49,088,472</u>
Plan Fiduciary Net Position, Beginning of Year	506,436,677	454,173,920	512,817,268	549,899,376
	<u>454,173,920</u>	<u>512,817,268</u>	<u>549,899,376</u>	<u>598,987,848</u>
	<u>\$ (191,985,185)</u>	<u>\$ (256,583,033)</u>	<u>\$ (262,802,384)</u>	<u>\$ (328,133,783)</u>
Ratio Information:				
Plan fiduciary net position as a percentage of total pension liability	173.22%	200.14%	191.54%	221.15%
Covered employee payroll	\$ 1,427,628	\$ 1,391,765	\$ 1,349,022	\$ 1,294,948
City of Pontiac net pension asset as a percentage of covered payroll	(13,447.84)%	(18,435.80)%	(19,480.96)%	(25,339.53)%

The City of Pontiac General Employees' Retirement System's pension liability of \$270,854,065 was transferred to the City of Pontiac Reestablished General Employees' Retirement System on January 1, 2022. Therefore, there is no data to be presented for the year ended December 31, 2022.

CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

**SCHEDULE OF CHANGES IN CITY OF PONTIAC NET PENSION ASSET
AND RELATED RATIOS (UNAUDITED)**

**For the Year Ended December 31, 2022
(Ultimately Building to Ten Years)**

Changes in Total Pension Liability:	
Service cost	\$ 179,497
Interest	15,609,604
Differences between expected and actual experience	(1,166,602)
Changes in actuarial assumptions	(12,260,194)
Benefit payments, including refunds of member contributions	(21,757,276)
Transfer of pension liability from City of Pontiac General Employees' Retirement System	<u>270,854,065</u>
Change in Total Pension Liability	251,459,094
Total Pension Liability, Beginning of Year	<u>-0-</u>
Total Pension Liability, End of Year	<u>251,459,094</u>
Changes in Plan Fiduciary Net Position:	
Net investment loss	(38,420,607)
Participant benefit payments, including refunds of member contributions	(21,757,276)
Administrative expenses	(622,141)
Plan-to-plan resource movement	443,006,450
Other changes	<u>30,408</u>
Change in Plan Fiduciary Net Position	382,236,834
Plan Fiduciary Net Position, Beginning of Year	<u>-0-</u>
Plan Fiduciary Net Position, End of Year	<u>382,236,834</u>
City of Pontiac Net Pension Asset, End of Year	<u><u>\$ (130,777,740)</u></u>
Ratio Information:	
Plan fiduciary net position as a percentage of total pension liability	152.01%
Covered employee payroll	\$ 1,013,588
City of Pontiac net pension asset as a percentage of covered payroll	(12,902.46)%

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
 CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULES OF CITY OF PONTIAC CONTRIBUTIONS (UNAUDITED)

For the Ten Years Ended December 31, 2022

City of Pontiac General Employees' Retirement System

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to Actuarially Determined Contribution</u>	<u>Contribution Deficiency</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2013	\$ -0-	\$ -0-	\$ -0-	\$ 1,574,964	-0 %
2014	-0-	-0-	-0-	1,478,241	-0-
2015	-0-	-0-	-0-	1,528,731	-0-
2016	-0-	-0-	-0-	1,540,472	-0-
2017	-0-	-0-	-0-	1,450,352	-0-
2018	-0-	-0-	-0-	1,427,628	-0-
2019	-0-	-0-	-0-	1,391,765	-0-
2020	-0-	-0-	-0-	1,349,022	-0-
2021	-0-	-0-	-0-	1,294,948	-0-

The net pension liability of the City of Pontiac General Employees' Retirement System was transferred to the City of Pontiac Reestablished General Employees' Retirement System on January 1, 2022. Therefore, there is no data to be presented for the year ended December 31, 2022.

City of Pontiac Reestablished General Employees' Retirement System

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to Actuarially Determined Contribution</u>	<u>Contribution Deficiency</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2022	\$ -0-	\$ -0-	\$ -0-	\$ 1,013,588	-0 %

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM AND
CITY OF PONTIAC REESTABLISHED GENERAL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULES OF CITY OF PONTIAC CONTRIBUTIONS (UNAUDITED) (CONTINUED)

For the Ten Years Ended December 31, 2022

The following valuation dates, methods, and assumptions were used to determine contribution rates for the City of Pontiac General Employees' Retirement System and the City of Pontiac Reestablished General Employees' Retirement System:

Valuation date:	Actuarially determined contribution rates are calculated as of December 31; the most recent valuation is as of December 31, 2022
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:	2.0 percent
Salary increases:	3.6 percent to 7.4 percent, including inflation
Investment rate of return:	Six percent, net of investment expense, including inflation
Retirement age:	Age-based table of rates that are specific to the type of eligibility condition
Mortality rates:	The Pub-2010 Amount-Weighted, General, Employee, Male and Female tables, with future mortality improvements projected generationally to 2030, using scale MP-2019