

**CITY OF PONTIAC POLICE
AND FIRE RETIREMENT SYSTEM**
(a fiduciary component unit of the City of Pontiac, Michigan)

**Financial Statements and
Supplementary Information as of
December 31, 2021
Together with
Independent Auditor's Report**

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

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INDEPENDENT AUDITOR'S REPORT

March 2, 2023

To the Board of Trustees of the
City of Pontiac Police and Fire Retirement System:

Qualified Opinion

We have audited the accompanying financial statements of the City of Pontiac Police and Fire Retirement System (the Retirement System), which comprise the statement of fiduciary net position as of December 31, 2021, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the fiduciary net position of the City of Pontiac Police and Fire Retirement System as of December 31, 2021 and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 3 to the financial statements, alternative investments amounting to \$119,033,830 (50 percent of fiduciary net position) as of December 31, 2021, have been presented at fair value as measured by the Retirement System. We have reviewed the procedures applied by the Retirement System in valuing the securities and have inspected the underlying documentation. In our opinion, those procedures are not adequate to measure the fair value of the investments in accordance with accounting principles generally accepted in the United States of America. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Pontiac Police and Fire Retirement System 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 qualified audit opinion.

Responsibilities of Management 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, 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.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Responsibilities of Management for the Financial Statements (Continued)

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 City of Pontiac Police and Fire Retirement System's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments; administering the plan; and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the retirees, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and 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.
- 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 City of Pontiac Police and Fire Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Pontiac Police and Fire Retirement System's ability to continue as a going concern 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, 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, who 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 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.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 supplementary 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 supplementary 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>2021</u>	<u>2020</u>
Assets	\$ 238,092,547	\$ 221,379,000
Liabilities	<u>260,537</u>	<u>157,410</u>
Net Position – Restricted for Pensions	<u>\$ 237,832,010</u>	<u>\$ 221,221,590</u>
	<u>2021</u>	<u>2020</u>
Additions		
Investment income, net	\$ 33,115,699	\$ 19,678,345
Employer contributions	4,745,450	1,835,294
Other income	<u>1,350</u>	<u>1,482</u>
Total additions	<u>37,862,499</u>	<u>21,515,121</u>
Deductions		
Benefit payments	20,945,892	20,864,910
General and administrative expenses	<u>306,187</u>	<u>365,072</u>
Total deductions	<u>21,252,079</u>	<u>21,229,982</u>
Net Increase in Net Position - Restricted for Pensions	<u>\$ 16,610,420</u>	<u>\$ 285,139</u>

Plan Contributions

Employer contributions were \$4,745,450 and \$1,835,294 in 2021 and 2020, respectively.

There were no employee contributions in 2021 and 2020. Prior to the plan closure effective March 1, 2012, active system employees were required to contribute 2.5 percent of applicable wages. As of March 1, 2012, there were no active plan members, resulting in minimal employee contributions for the year ended December 31, 2012 and no employee contributions in the subsequent years.

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

Overall Fund Structure and Objectives

The City of Pontiac Police and Fire Retirement System (the Retirement System) exists to pay benefits to its members and retirees. Active members earned service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The Retirement System has established asset allocation policies, which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the Retirement System. The following is a summary of the adopted asset allocation as of December 31, 2021:

Domestic equity	45.00 %
Domestic fixed income	18.00
International equity	12.00
International fixed income	5.00
Real estate	10.00
Other assets	10.00

Investment Results

Although the year 2021 was still impacted by the COVID-19 pandemic, the trend of the stock market remained positive during the year. Primary drivers of the strong returns are the re-opening of the global economy and additional fiscal and monetary stimulus. Concerns over the pandemic began to fade, and investors turned their focus towards the rebound in the economy and the potential for earnings growth and multiple expansion. As the year progressed, economic growth began to slow as the recovery of the economy continued to mature. The demand for workers continued to be strong and the unemployment rate declined. However, concerns related to the Delta and Omicron variants emerged, as well as supply chain shortages, higher U.S. interest rates, rising inflation, and fiscal policies in Washington. The Federal Reserve revised its policy in an attempt to control inflation, targeting an earlier exit from its bond buying program and additional rate hikes in 2022 and 2023.

The equity markets continued their rebound throughout 2021. The S&P 500 large cap stock index returned 28.7 percent for the year ended December 31, 2021. The fixed income markets were impacted by inflation concerns and the Federal Reserve's policy shift. The Bloomberg Barclays U.S. Treasury Inflation Protected Notes (U.S. fixed income) returned 6 percent, while the Bloomberg Barclays U.S. Aggregate (U.S. fixed income) declined by 1.5 percent for the year ended December 31, 2021. The real estate sector has traditionally exhibited positive correlation to inflation. The NCREIF Property Index (U.S. real estate) returned 6.15 percent for the year ended December 31, 2021. The Retirement System returned 16.42 percent for the year ended December 31, 2021.

Plan Sponsor Financial Condition/Plan Update

The City of Pontiac, Michigan (the plan sponsor) had experienced significant financial difficulty and, in 2013, was placed in receivership under Michigan Public Act 436 of 2012. On March 31, 2016, the State returned local control of the City of Pontiac, Michigan's operations to Mayor Deirdre Waterman and the Pontiac City Council.

Contacting the Retirement System's Management

This financial report is intended to provide a general overview of the Retirement System's finances and investment results in relation to actuarial projections. It shows the Retirement 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 Retirement System's office at 700 Tower Drive, Suite 300, Troy, MI 48098.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2021

ASSETS

CASH	\$ 7,235,631
INVESTMENTS, at fair value:	
Short-term investment funds	4,838,232
U.S. Government securities	12,257,855
U.S. Government mortgage-backed securities	10,604,769
Common stocks	60,734,279
Corporate bonds	6,895,443
Real estate funds	20,228,926
Mutual funds	16,132,121
Private equity funds	67,758,961
Collective trust funds	10,685,684
Limited partnerships	<u>20,360,259</u>
	<u>230,496,529</u>
RECEIVABLES:	
Accrued interest receivable	192,445
Other receivables	<u>167,942</u>
	<u>360,387</u>
Total assets	<u>238,092,547</u>

LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	<u>260,537</u>
Total liabilities	<u>260,537</u>
NET POSITION - restricted for pensions	<u>\$ 237,832,010</u>

The accompanying notes are an integral part of these statements.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2021

ADDITIONS:

INVESTMENT INCOME:

Interest and dividends	\$ 4,474,260
Net appreciation in fair value of investments	<u>29,473,668</u>
	33,947,928
Less: Investment expenses	<u>(832,229)</u>
Total investment income, net	33,115,699
EMPLOYER CONTRIBUTIONS	4,745,450
OTHER INCOME	<u>1,350</u>
Total additions	<u>37,862,499</u>
DEDUCTIONS:	
BENEFIT PAYMENTS	20,945,892
GENERAL AND ADMINISTRATIVE EXPENSES	<u>306,187</u>
Total deductions	<u>21,252,079</u>
NET INCREASE IN NET POSITION	16,610,420
NET POSITION - restricted for pensions - beginning of year	<u>221,221,590</u>
NET POSITION - restricted for pensions - end of year	<u>\$ 237,832,010</u>

The accompanying notes are an integral part of these statements.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021

1. DESCRIPTION OF THE RETIREMENT SYSTEM

The following brief description of the City of Pontiac Police and Fire Retirement System (the Retirement System) is provided for general information purposes only. A detailed description of benefits can be found in the Retirement System's actuarial report.

General

The City of Pontiac, Michigan (the City) sponsors the Retirement System (a contributory single-employer retirement plan) that covers all eligible police and fire retirees of the City.

The financial statements of the Retirement System are also included in the combined financial statements of the City of Pontiac, Michigan as a fiduciary component unit. The assets of the pension trust fund include no securities of, or loans to, the City or any other related party.

The Board of Trustees administers the City of Pontiac Police and Fire Retirement System, a single-employer defined benefit pension plan that provides pensions for all permanent full-time public safety employees of the City of Pontiac, Michigan who were employed with the City on or before the time of the plan's partial termination on March 1, 2011. Benefit terms have been established by contractual agreements between the City of Pontiac, Michigan and the various employee union representations; amendments are subject to the same process.

Management of the Retirement System is vested in the Board of Trustees, which consists of five members – two members representing the City of Pontiac, Michigan, who shall be the mayor and director of finance; one policeman and one fireman with at least five years of credited service, elected by plan members; and one independent member voted by the four other trustees.

Partial Termination and Plan Closure

In 2011, a partial termination of the pension plan for police and fire employees was deemed to have occurred when the City contracted with the Oakland County sheriff for policing services. This resulted from the termination of active employee positions at the City under executive orders issued by the emergency manager. As of March 1, 2012, the City contracted with Waterford Township to provide fire services; as of that date, the plan no longer had any active employees. As a result, for the purpose of computing the actuarial determined contribution to the Retirement System from the City, the actuary is expressing the amount as a level dollar amount amortized on a closed basis, rather than as a level percentage of payroll.

Benefits Provided

The Retirement System provides retirement, disability, and death benefits. Employees may receive cost of living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement or employment agreement in effect at their date of retirement. The benefit terms and the obligation to contribute to and maintain the Retirement System were established by City ordinance and negotiation with the employees' collective bargaining units.

1. DESCRIPTION OF RETIREMENT SYSTEM (Continued)

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Retirement System hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to make pension contributions based on the City ordinance, union contracts, and plan provisions; however, given that the plan is now closed, there are no longer any active members of the plan. The Retirement System's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2021, the City of Pontiac, Michigan's required contribution was \$2,248,844 and actual contributions were \$4,745,450. There were no contributions due from members during fiscal year 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB).

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Retirement System maintains its cash in bank demand deposit accounts. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) and at times may exceed federally insured limits.

Methods Used to Value Investments

Investments 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. Securities not traded on a national or international exchange are based upon quoted prices for comparable instruments with similar yields and risk in active and inactive markets. Investments that do not have an established market value are valued at net asset value (NAV) as a practical expedient to estimate fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Policy

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 law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retirement System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reserve repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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 314 of 1965, as amended. The Retirement System's deposits and investment policies are in accordance with statutory authority.

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investments 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 pension board's adopted asset allocation policy as of December 31, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	45.00%
International equity	12.00
Domestic fixed income	18.00
International fixed income	5.00
Real estate	10.00
Other assets	10.00

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return, net of expenses on the Retirement System's investments, was 16.35 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Administrative Expenses

All administrative expenses are paid by the Retirement System.

3. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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. The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Retirement System has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2021.

Short-term investment funds, including cash and money market funds, common stocks and mutual funds are valued using Level 1 inputs at the quoted closing price reported on the active market on which the individual securities are traded.

Corporate bonds are valued using Level 2 inputs based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

U.S. Government securities and U.S. Government mortgage-backed securities are valued using Level 2 inputs based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The Retirement System invests in certain real estate funds and limited partnerships that are valued using Level 2 inputs based on the Retirement System's proportionate share of members' equity of the funds, which are measured at fair value as of the date of the latest valuation performed by the investment custodians as of December 31, 2021.

The Retirement System did not have any investments values based on Level 3 inputs.

3. FAIR VALUE MEASUREMENTS (Continued)

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Retirement System's management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Retirement System's investments at fair value as of December 31, 2021:

<u>Investments at Fair Value on a Recurring Basis</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government securities	\$ -	\$ 12,257,855	\$ -	\$ 12,257,855
Common stocks	60,734,279	-	-	60,734,279
Corporate bonds	-	6,895,443	-	6,895,443
Mutual funds	16,132,121	-	-	16,132,121
Real estate funds	-	2,952,003	-	2,952,003
Limited partnerships	-	4,940,063	-	4,940,063
Short-term investment funds	4,838,232	-	-	4,838,232
U.S. Government mortgage-backed securities	-	10,604,769	-	10,604,769
	<u>-\$ 76,866,400</u>	<u>\$ 37,650,133</u>	<u>\$ -</u>	119,354,765
Total				
Investments measured at NAV:				
Private equity funds				67,758,961
Real estate funds				17,276,923
Collective trust funds				10,685,684
Limited partnerships				<u>15,420,197</u>
Total investments measured at NAV				<u>111,141,764</u>
Total investments				<u>\$ 230,496,529</u>

Investment in Entities that Calculate Net Asset Value per Share

The Retirement System holds shares or interests in investment companies where 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.

At December 31, 2021, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Private equity funds	\$ 67,758,961	\$ -	Monthly	Up to 3 days
Real estate funds	17,276,923	672,904	Quarterly	10 days
Collective trust funds	10,685,684	-	Daily	7 days
Limited partnerships	<u>15,420,197</u>	<u>5,952,817</u>	Quarterly	15 days
Total	<u>\$ 111,141,763</u>	<u>\$ 6,625,721</u>		

3. FAIR VALUE MEASUREMENTS (Continued)

The private equity funds and collective trust funds include investments in U.S. and non-U.S. publicly traded securities. The fair values of the investments in these funds have been estimated using net asset value per share of the investments.

The real estate funds include investments in funds whose objective is to acquire, develop, own, and operate a diversified portfolio of real estate investments. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The limited partnerships include investments predominantly in private debt. The fair values of the investments in these funds have been estimated using net asset value per share of the investments.

4. PENSION BENEFITS

Plan Membership

The following members were covered by benefits terms:

Inactive plan members or beneficiaries currently receiving benefits	430
Inactive plan members not yet receiving benefits-deferred	<u>114</u>
Total	<u><u>544</u></u>

Net Pension Liability of the City

The net pension liability of the City of Pontiac, Michigan has been measured as of December 31, 2021 and is composed of the following:

Total pension liability	\$ 246,905,871
Retirement System's fiduciary net position	<u>(237,832,010)</u>
City's net pension liability	<u>\$ 9,073,861</u>

Retirement System's fiduciary net position as a percentage of the total pension liability	96.32%
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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2021. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement (there are no assumptions related to inflation and salary increases, as there was a partial termination and plan closure in 2011):

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at actuarially determined rates.

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.

4. PENSION BENEFITS (Continued)

Actuarial Assumptions (Continued)

Mortality Assumptions

As the plan is not large enough to have credible experience, the actuary has set the mortality assumption to reflect general population trends. For healthy annuitants, the plan has utilized the Pub-S 2010 Mortality Table with generational improvements using scale MP-2021. For disabled annuitants, the plan is using the Pub-S 2010 Disabled Mortality with generational improvements using scale MP-2021. This is a change from prior year when the plan utilized the Pub-S 2010 Mortality Table with generational improvements using scale MP-2020 for healthy annuitants and the Pub-S 2010 Disabled Mortality Table with generational improvements using scale MP-2020 for disabled annuitants.

Investment Rate of Return

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 assets class. These ranges are combined to produce the long-term asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return as of December 31, 2021 for each major asset class included in the pension plan's target assets allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	7.50%
International equity	8.50
Domestic bonds	2.50
International bonds	3.50
Real estate	4.50
Other assets	6.08

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

The following presents the net pension liability of the City of Pontiac, Michigan, calculated using the discount rate of 7.25 percent, as well as what the City of Pontiac, Michigan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1 Percentage Point Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1 Percentage Point Increase (8.25%)</u>
Net pension liability of the City	\$ 34,166,120	\$ 9,073,861	\$ (12,042,019)

Benefit Changes

During fiscal year 2015, the board approved to provide retirees a payment of an additional \$400 per month under Executive Order 308 to the members affected by the Executive Order for the period from September 2013 through August 2015. In August 2016, the \$400 per month supplement was extended from September 1, 2016 to August 30, 2017. During fiscal year 2017, the \$400 per month supplement was extended from September 1, 2017 to August 30, 2018. During fiscal year 2018, the \$400 per month supplement was extended through August 31, 2019. During fiscal year 2019, the \$400 per month supplement was extended through August 31, 2020. During fiscal year 2020, the \$400 per month supplement was extended through August 31, 2021. During fiscal year 2021, the \$400 per month supplement was extended through August 31, 2022.

4. PENSION BENEFITS (Continued)

Pension Plan Reserves

As of December 31, 2021, the plan's legally required reserves have been fully funded as follows:

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 employee reserve is credited as employees made contributions; the plan maintains a record of the amount contributed by each employee.

The calculations of the present value of vested benefits were as follows at December 31, 2021:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Actuarial present value of accumulated plan benefits:		
Vested benefits-		
Retiree reserve	\$ 246,905,871	\$ 236,708,613
Employee reserve	1,123,397	1,123,397

5. INCOME TAX STATUS

The Retirement System obtained its latest determination letter on November 21, 2012, in which the Internal Revenue Service stated that the Retirement System, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Retirement System has been amended since receiving the determination letter. However, the Retirement System's administrator and the Retirement System's tax counsel believes that the Retirement System is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and therefore believe the Retirement System is qualified and the related trust is tax-exempt.

The Retirement System is exempt from federal and state income taxes under Section 501(c)(9) of the Internal Revenue Code.

6. RISKS AND UNCERTAINTIES

The Retirement System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of fiduciary net position. The risks associated with cash and investments are examined in more detail below.

Plan contributions are made based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

6. RISKS AND UNCERTAINTIES (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Retirement System's deposits may not be returned to it. The Retirement System does not have a deposit policy for custodial credit risk. At year-end, the Retirement System had \$6,985,631 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Retirement System believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Retirement System evaluates 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 Retirement System's investment policy restricts the average duration of an actively managed portfolio to not differ from the benchmark duration by more than 25 percent.

At December 31, 2021, the Retirement System had the following investments:

Investment	Carrying Value	Weighted-Average Maturity (Years)
U.S. Government mortgage-backed securities	\$ 10,604,769	15.29
U.S. Government securities	12,257,855	5.70
Corporate bonds	<u>6,895,443</u>	3.87
Total	<u>\$ 29,758,067</u>	

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Retirement System's investment policy limits investments rated in the top four major grades, as determined by Standard & Poor's or Moody's. At December 31, 2021, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Carrying Value	S&P Rating
Corporate bonds	\$ 730,765	AA
Corporate bonds	4,252,736	A
Corporate bonds	<u>1,911,942</u>	BBB
Total	<u>\$ 6,895,443</u>	

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

Schedule I

**SCHEDULE OF CHANGES IN CITY'S NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
LAST EIGHT FISCAL YEARS
FOR THE YEARS ENDED DECEMBER 31:**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability								
Interest	\$ 17,521,865	\$ 17,278,079	\$ 17,523,601	\$ 17,768,283	\$ 18,015,944	\$ 18,142,691	\$ 17,667,136	\$ 17,801,885
Changes in benefits term	-	627,852	666,543	464,793	765,616	780,417	1,179,108	-
Differences between expected and actual experience	281,827	1,610,674	(181,582)	(451,296)	(575,621)	2,964,382	4,777,253	67,662
Changes in assumptions	5,950,258	4,639,281	(556,186)	(434,944)	(606,903)	(2,147,637)	3,437,195	-
Benefit payments, including refunds	<u>(20,945,892)</u>	<u>(20,864,910)</u>	<u>(20,587,103)</u>	<u>(20,631,416)</u>	<u>(21,170,946)</u>	<u>(21,688,683)</u>	<u>(19,751,254)</u>	<u>(19,581,140)</u>
Net Changes in Total Pension Liability	2,808,058	3,290,976	(3,134,727)	(3,284,580)	(3,571,910)	(1,948,830)	7,309,438	(1,711,593)
Total Pension Liability- beginning of the year	<u>244,097,813</u>	<u>240,806,837</u>	<u>243,941,564</u>	<u>247,226,144</u>	<u>250,798,054</u>	<u>252,746,884</u>	<u>245,437,446</u>	<u>247,149,039</u>
Total Pension Liability- end of the year	<u>\$ 246,905,871</u>	<u>\$ 244,097,813</u>	<u>\$ 240,806,837</u>	<u>\$ 243,941,564</u>	<u>\$ 247,226,144</u>	<u>\$ 250,798,054</u>	<u>\$ 252,746,884</u>	<u>\$ 245,437,446</u>
Plan Fiduciary Net Position								
Contributions-Employer	\$ 4,745,450	\$ 1,835,294	\$ 2,133,428	\$ 2,412,557	\$ 1,773,627	\$ 2,041,923	\$ 2,327,949	\$ 901,797
Net investment income(loss)	33,115,699	19,678,345	33,045,584	(7,116,516)	28,866,568	18,343,180	1,600,942	15,235,786
Administrative expenses	(306,187)	(365,072)	(297,302)	(257,590)	(310,593)	(300,220)	(328,225)	(332,389)
Benefit payment, including refunds	(20,945,892)	(20,864,910)	(20,587,103)	(20,631,416)	(21,170,946)	(21,688,683)	(19,751,254)	(19,581,140)
Other	<u>1,350</u>	<u>1,482</u>	<u>3,583</u>	<u>10,085</u>	<u>5,188</u>	<u>25,735</u>	<u>937</u>	<u>40,754</u>
Net Change in Plan Fiduciary Net Position	16,610,420	285,139	14,298,190	(25,582,880)	9,163,844	(1,578,065)	(16,149,651)	(3,735,192)
Plan Fiduciary Net Position - beginning of year	<u>221,221,590</u>	<u>220,936,451</u>	<u>206,638,261</u>	<u>232,221,141</u>	<u>223,057,297</u>	<u>224,635,362</u>	<u>240,785,013</u>	<u>244,520,205</u>
Plan Fiduciary Net Position - end of year	<u>\$ 237,832,010</u>	<u>\$ 221,221,590</u>	<u>\$ 220,936,451</u>	<u>\$ 206,638,261</u>	<u>\$ 232,221,141</u>	<u>\$ 223,057,297</u>	<u>\$ 224,635,362</u>	<u>\$ 240,785,013</u>
City's Net Pension Liability - ending	<u>\$ 9,073,861</u>	<u>\$ 22,876,223</u>	<u>\$ 19,870,386</u>	<u>\$ 37,303,303</u>	<u>\$ 15,005,003</u>	<u>\$ 27,740,757</u>	<u>\$ 28,111,522</u>	<u>\$ 4,652,433</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.32%	90.63%	91.75%	84.71%	93.93%	88.94%	88.88%	98.10%
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Employee Payroll	0%	0%	0%	0%	0%	0%	0%	0%

Contributions to the pension plan are not based on a measure of pay; therefore, no covered payroll is presented.

Schedule will be built prospectively from GASB Statement No. 67 adoption until 10 full years are presented.

The accompanying notes are an integral part of this schedule.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

Schedule II

SCHEDULE OF CITY CONTRIBUTIONS (UNAUDITED)
 LAST TEN FISCAL YEARS
 FOR THE YEARS ENDED DECEMBER 31

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 2,248,844	\$ 1,835,294	\$ 2,133,428	\$ 2,412,557	\$ 1,773,627	\$ 2,041,923	\$ 2,327,949	\$ 901,797	\$ 901,797	\$ 931,311
Contributions in relation to the actuarially determined contribution	4,745,450	1,835,294	2,133,428	2,412,557	1,773,627	2,041,923	2,327,949	901,797	2,176,862	-
Contribution Excess Deficiency	\$ 2,496,606	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,275,065	\$ (931,311)
Covered-employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered-employee Payroll	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date

Actuarially determined contribution rates are calculated as the City's year end of June 30, two and one-half years prior to the end of the fiscal year in which the contributions are reported. Contributions for the City's fiscal year ended June 30, 2021 were determined based on the actuarial valuation as of December 31, 2018. The most recent valuation is as of December 31, 2021.

Methods and assumptions used to determine contributions rates:

Actuarial cost method	Individual entry age cost method - level dollar
Amortization method	21 year closed level dollar amortization of Unfunded Actuarial Accrued Liability
Remaining amortization period	21 years
Asset valuation method	Market value of assets with a 5-year phase in of gains and losses, subject to a 20% corridor
Salary increase	N/A
Investment rate of return	7.25 percent, net of investment expenses
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality - Health	Pub-S 2010 Mortality Table with generational improvements using MP-2021 scale
Mortality - Disabled	Pub-S 2010 Disabled Mortality Table with generational improvements using MP-2021 scale
Other information	Cost of living adjustments are 2.0 percent of original pension amounts at retirement for certain plan members applied to years of retirement

The accompanying notes are an integral part of this schedule.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

Schedule III

**SCHEDULE OF INVESTMENT RETURNS (UNAUDITED)
LAST SEVEN FISCAL YEARS
FOR THE YEARS ENDED DECEMBER 31:**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	16.35%	9.62%	17.86%	(4.19)%	14.25%	9.86%	0.38%

Schedule will be built prospectively from GASB Statement No. 67 adoption until 10 full years are presented.

The accompanying notes are an integral part of this schedule.

CITY OF PONTIAC POLICE AND FIRE RETIREMENT SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2021

Benefit Changes

During fiscal year 2015, the board approved to provide retirees a payment of an additional \$400 per month under Executive Order 308 to the members affected by the Executive Order for the period from September 2013 through August 2015. In August 2016, the \$400 per month supplement was extended from September 1, 2016 to August 30, 2017. During fiscal year 2017, the \$400 per month supplement was extended from September 1, 2017 to August 30, 2018. During fiscal year 2018, the \$400 per month supplement was extended through August 31, 2019. During fiscal year 2019, the \$400 per month supplement was extended through August 31, 2020. During fiscal year 2020, the \$400 per month supplement was extended through August 31, 2021. During fiscal year 2021, the \$400 per month supplement was extended through August 31, 2022.

Changes in Mortality Tables

During fiscal year 2016, the Retirement System used the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2016, as compared to the RP-2014 Blue Collar Mortality Table with generational improvements using scale MP-2015 used in fiscal year 2015. During fiscal year 2017, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2017. During fiscal year 2018, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2018. During fiscal year 2019, the Retirement System used the RP-2014 Blue Collar Table with generational improvements using scale MP-2019. During fiscal year 2020, the Retirement System used the Pub-S 2010 Mortality Table with generational improvements using scale MP-2020. During fiscal year 2021, the Retirement System used the Pub-S 2010 Mortality Table with generational improvements using scale MP-2021.