

June 15, 2010

To the City of Pontiac Boards
City of Pontiac Retirement Systems and
Retiree Health and Insurance Trusts

We have audited the financial statements of the General Employees' Retirement System, the Police and Fire Retirement System, the General Employees' Prefunded Group Health Insurance Plan and Trust, and the Police and Fire Retiree Prefunded Group Health and Insurance Plan and Trust (the "Systems and Trusts") for the year ended December 31, 2009 and have issued our report thereon dated June 15, 2010. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Other Recommendations

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the City of Pontiac Boards of City of the Pontiac Retirement Systems and Retiree Health and Insurance Trusts.

Section II presents recommendations related to internal controls and procedures noted during our current year audit. These comments are offered in the interest of helping the government in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the government's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the City of Pontiac Boards and management of the City of Pontiac Retirement Systems and Retiree Health and Insurance Trusts and is not intended to be and should not be used by anyone other than these specified parties.

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We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Beth Bialy



Alisha Davis

SECTION I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 12, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City of Pontiac Retirement Systems and Retiree Health and Insurance Trusts. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you as part of our planning process during May 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Pontiac Retirement Systems and Retiree Health and Insurance Trusts are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2009 for the Systems and the Trusts; however, the City did adopt Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which impacted footnote disclosures and required supplemental information disclosures for the Trusts' financial statements in the current year.

We noted no transactions entered into by the Systems and the Trusts during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the valuation of alternative investments and the valuation of the actuarial accrued liability. The valuation for certain alternative investments is based on unaudited financial statements or other valuation methods in use by the boards. The valuation of the actuarial accrued liability is based on third-party actuarial assumptions and methods. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements other than the disclosure of the loss of value of certain securities lending collateral.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that no such misstatements were identified during the course of our audit procedures.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2010.

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Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the government’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

SECTION II - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the government to further strengthen internal controls or to increase operating efficiencies. Our observations on those areas are presented for your consideration below.

Accounting and Control Matters

Statement on Auditing Standards (SAS) No. 70 - Audits of Investment Custodians

SAS No. 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. This reporting involves an independent auditor issuing an opinion on the service organization's control activities and processes. The Systems and the Trusts receive these SAS No. 70 reports annually from their investment custodians; however, they are not reviewed internally by the Systems' and the Trusts' personnel. As the Systems and the Trusts rely on information provided by these custodians in reporting fair value of investments and periodic income on investments, we recommend adopting a process that would involve reviewing the SAS No. 70 reports annually to ensure that there are no significant control deficiencies that could impact the Systems' and the Trusts' reliance on the investment custodians.

Compliance with Public Act 314

At December 31, 2009, the Police and Fire Retiree Health and Insurance Trust had 72.5 percent of investments held in equities even though the permissible percentage per Public Act 314 is 70 percent. We recognize that these results are directly impacted by changing market conditions which often cannot be anticipated. It is our understanding that the Systems perform periodic rebalancing to ensure compliance with the public act.

Alternative Investments

During our review of the board minutes over the past couple of years for the Retirement Systems, we noted many discussions concerning alternative investments. Additionally, the Systems have realized significant write-offs over the past couple of years related to alternative investments. In the past, with the exception of the CAP investments, the Systems have only invested in publicly traded vehicles. As the Systems get larger, it is not unusual for them to add alternative investments to their portfolio. We suggest that the Systems fully review these investment opportunities and follow an established, formal due diligence process to document items such as the following:

- Assertions made by managers of the investments
- Review of incorporation and other contractual documents by third-party expertise to identify and report to the Systems any matters that may impact valuation of investments going forward
- A detailed and independent analysis of financial projections
- A summarization of the reasons why the particular investments meet the Systems' investment objectives

Once an investment has been entered into, the agreement should be very clear regarding periodic reporting, annual audits, etc. Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions because of the lack of a readily determinable fair value for the investments and the limited investment information generally provided by the managers of the investments. Some of the processes that should be documented for audit purposes include:

- Documentation of management site visits or telephone calls
- Review by the Systems of periodic statements from the fund or trustee reflecting investment activity. This review should be very comprehensive and address discrepancies between actual performance and the performance set forth in earlier financial projections.
- Establishment of controls related to periodic draws and whether they meet an established timetable or have otherwise been deemed appropriate
- Use of an investment adviser to monitor the alternative investments, including the underlying investments and/or to monitor markets or market indicators and their effect on the estimated fair values of the Systems' investment

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- The availability of audited financial statements for the alternative investments and whether such statements are as of the same date as the Systems' financial statements, the timing of when such audited financial statements become available, and whether the audits are conducted by qualified and reputable independent audit firms. Timely and reliable financial statements are critical to the Systems' financial reporting and valuation process; therefore, we suggest that the Systems consider imposing some form of penalty or other repercussion to encourage timely reporting by the alternative investment managers.