

General Retirement System of the City of Detroit

**Financial Report
with Supplemental Information
June 30, 2008**

General Retirement System of the City of Detroit

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Independent Auditor's Report

To the Board of Trustees
General Retirement System
of the City of Detroit

We have audited the accompanying statement of plan net assets of the General Retirement System of the City of Detroit (the "System") as of June 30, 2008 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements and, in our report dated December 21, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Retirement System of the City of Detroit as of June 30, 2008 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
General Retirement System
of the City of Detroit

As explained in Note 3, the financial statements include investments valued at approximately \$1,020,000,000 (29 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers, periodic appraisal, real estate advisors, general partners, or other means.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the General Retirement System of the City of Detroit's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 10, 2008

General Retirement System of the City of Detroit

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) required and other supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required and other supplemental information that further explain and support 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 two prior years:

| | Fiscal Year Ended | | |
|---|--------------------------------|--------------------------------|--------------------------------|
| | June 30, 2008 | June 30, 2007 | June 30, 2006 |
| Total assets | \$ 3,974,699,052 | \$ 4,525,950,316 | \$ 4,145,070,214 |
| Total liabilities | <u>557,931,326</u> | <u>679,938,257</u> | <u>689,990,994</u> |
| Assets held in trust for pension benefits | <u>\$ 3,416,767,726</u> | <u>\$ 3,846,012,059</u> | <u>\$ 3,455,079,220</u> |
| Net investment (loss) income | \$ (217,055,114) | \$ 614,322,130 | \$ 377,184,751 |
| Contributions: | | | |
| Employee | 20,358,640 | 19,438,360 | 20,462,296 |
| Employer | <u>43,168,448</u> | <u>41,444,808</u> | <u>58,162,088</u> |
| Total contributions | 63,527,088 | 60,883,168 | 78,624,384 |
| Benefits paid to members and retirees: | | | |
| Retirees' pension and annuity benefits | 196,775,146 | 206,185,678 | 201,611,854 |
| Member annuity refunds and withdrawals | <u>74,217,378</u> | <u>73,588,557</u> | <u>114,333,813</u> |
| Total benefits paid | <u>270,992,524</u> | <u>279,774,235</u> | <u>315,945,667</u> |
| Benefits paid in excess of contributions | (207,465,436) | (218,891,067) | (237,321,283) |
| Ratio of benefits paid to contributions | 4.3 | 4.6 | 4.0 |
| Other expenses | <u>4,723,783</u> | <u>4,498,224</u> | <u>3,670,575</u> |
| Net (decrease) increase in net assets | <u>\$ (429,244,333)</u> | <u>\$ 390,932,839</u> | <u>\$ 136,192,893</u> |

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The General Retirement System of the City of Detroit (DGRS or the "System") is a defined benefit pension plan and defined contribution plan. DGRS exists to pay benefits to its members. Members of the System include active employees, retirees, and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Retirees and beneficiaries are those members currently receiving benefits.

DGRS is a relatively mature plan in that there are more members receiving current benefits than active members. As of June 30, 2008, there were 9,361 active members, 11,420 members receiving benefits, and 2,023 terminated plan members entitled to, but not yet receiving, benefits.

DGRS is governed by a 10-member board of trustees (the "Board"). Five members of the Board are elected by the active membership to serve six-year terms. One member is elected by the retiree membership to serve a two-year term. One member is appointed by the mayor of the City of Detroit from the citizens of the City of Detroit to serve a six-year term. Three members serve ex-officio, these members being the mayor of the City of Detroit (or designee), the city treasurer, and one representative from the Detroit City Council. Expirations of terms of elected trustees are staggered.

Contributions to the System

The City of Detroit (employer) makes regular contributions to the System. The required contributions are determined by the System's actuaries using the entry age normal cost method. Basic pension and disability benefits are funded through employer contributions plus investment earnings on those contributions.

Active employees may voluntarily contribute 0 percent, 3 percent, 5 percent, or 7 percent of gross pay to the System. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. After 25 years of service, an active employee may elect to withdraw his or her accumulated contributions plus investment earnings. Upon retirement, an employee may elect to annuitize some or all of his or her annuity savings fund balance, resulting in a greater monthly retirement benefit. Any portion of an employee's annuity savings fund balance which is not annuitized upon retirement is refunded in a lump sum.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

In June 2005, the City of Detroit elected to issue pension obligation certificates and contribute approximately \$740 million to the System. Since the receipt of this contribution, the total fund composite return has been favorable. DGRS' total investment income attributable to these contributions through the end of the current year has been \$200 million in the aggregate or approximately 27 percent of the total contribution amount. Investment income in excess of the actuarial assumed rate (7.9 percent) through the end of the current year has been \$11 million or 1.5 percent of the total contribution amount. Investment income in excess of the interest expense incurred by the employer through the end of the current year has been \$78 million or 11 percent of the total contribution amount.

Benefit Payments

Benefits are paid monthly. DGRS paid out \$271 million in benefits during the year consisting of \$197 million in benefits to retirees and beneficiaries plus \$74 million in refunds of annuity savings fund balances. This represents approximately 8 percent of the net assets of the System. Employer and employee contributions were \$64 million or 2 percent of the net assets of the System. The excess of benefits over contributions (\$207 million) are funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

Asset Allocation

The Board believes that the principal determinant of total fund investment performance over long periods of time is asset allocation. The DGRS asset allocation is built upon the foundation that the obligations of the System to pay the benefits promised to its members are very long-term obligations. Accordingly, the Board must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years. The Board must also balance the desire to achieve long-term gains with the requirements of having to raise the cash to fund significant benefit payments every month.

State statutes impose limitations on what fraction of the total assets of the System may be invested in assets other than government bonds, investment grade bonds, and certain mortgages. Additional restrictions are imposed on what fraction of the total assets of the System may be invested in foreign securities. The Board's asset allocation policies comply with applicable state statutes.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The Board 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 System. The following is a summary of the DGRS asset allocation policy as of June 30, 2008:

| | |
|---------------------------|-----|
| Equities | 50% |
| Tactical Asset Allocation | 8% |
| Fixed Income | 22% |
| Real Estate | 10% |
| Alternative Investments | 8% |
| Market Neutral | 2% |

Investment Results

Returns presented herein have been determined using the AIMR-compliant, time-weighted, GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

The Board compares its investment results to those results of other plan sponsors as captured by the Independent Consultants Cooperative (ICC) Universe. The ICC Universe consists of approximately 1,000 plan sponsors which include some 200 public defined benefit systems. The Board considers the public fund segment of the ICC Universe to be its peer group. Relative comparisons of performance to peer group or relative ranking of performance (quartile, median, etc.) contained herein shall refer to the public fund segment of the ICC Universe unless explicitly stated to the contrary. Ranking within peer group is reported on the basis of 1 being best and 99 being worst.

Total Fund Composite

The total fund composite for the year was -4.3 percent. On a relative basis, the System outperformed both the median public fund and its benchmark objective for the year as shown below.

| | |
|---------------------|------|
| DGRS | -4.3 |
| Benchmark Objective | -4.5 |
| Median Public Fund | -4.4 |
| Peer Group Ranking | 47 |

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Although negative returns are disappointing, periods of negative returns are nevertheless inevitable in the context of the System's allocation to equities. This year follows five consecutive years of positive investment returns for the fiscal years ended June 30 as shown below:

| | |
|------|-------|
| 2007 | 18.9% |
| 2006 | 11.3% |
| 2005 | 8.3% |
| 2004 | 15.6% |
| 2003 | 3.3% |

Over longer periods of time, the investment return of DGRS has consistently out-performed its actuarial assumed rate (7.9 percent) and public fund peer group as shown below.

| | <u>Trailing 2 Years</u> | <u>Trailing 3 Years</u> | <u>Trailing 4 Years</u> | <u>Trailing 5 Years</u> | <u>Trailing 20 Years</u> |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| DGRS | 6.7% | 8.3% | 8.5% | 9.9% | 8.6% |
| Median Public Fund | 5.5% | 6.8% | 7.4% | 8.9% | - |
| Peer Group Ranking | 14 | 14 | 19 | 23 | - |

The following is a summary of the composite investment performance of the major asset classes:

| | <u>Return</u> | <u>Objective</u> | <u>Benchmark</u> |
|---------------------------|---------------|------------------|---------------------|
| Domestic Equities | -10.5 | -12.7 | Russell 3000 |
| International Equities | -6.0 | -8.8 | MSCI EAFE |
| Tactical Asset Allocation | -10.5 | -3.7 | Mellon Index |
| Fixed Income | 4.7 | 7.1 | Lehman Aggregate |
| Real Estate | 7.5 | 9.2 | NCREIF Index |
| Cash | 6.2 | 3.6 | 90-day T-Bills |
| Market Neutral | 7.7 | 6.6 | 90-day T-Bills + 3% |
| Alternative Investments | -6.6 | | |

Domestic Equities

The domestic equity assets consist of a combination of separately managed accounts and commingled funds. Within the domestic equity composite, 18 percent of the assets are managed using passive strategies designed to replicate the S&P 500 Index with the remaining 82 percent of the assets actively managed. Actively managed domestic equities are distributed among 18 accounts in the styles of large cap growth, large cap value, small cap growth, and small cap value.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The overall domestic equity composite return was -10.5 percent, which out-performed the return of the Russell 3000 index (-12.7 percent) by 220 basis points. The domestic equity composite return ranked well above the median public fund domestic equity composite within the ICC domestic equity universe as shown below:

| | |
|--|-------|
| DGRS Domestic Equity Composite | -10.5 |
| Russell 3000 | -12.7 |
| Median Public Fund Domestic Equity Composite | -13.0 |
| Peer Group Ranking | 34 |

The following is a summary of the performance of the domestic equity composite and its major components versus the broad domestic stock market averages:

| | |
|--|--------|
| DGRS Domestic Equity Composite | -10.5% |
| DGRS Domestic Large Cap Equity Composite | -10.1% |
| DGRS Domestic Small Cap Equity Composite | -11.3% |
| S&P 500 Index | -13.1% |
| Russell 1000 Index | -12.4% |
| Russell 2000 Index | -16.2% |
| Russell 3000 Index | -12.7% |

International Equities

The international equity composite consists of a combination of separately managed accounts and commingled funds. All of the international equity accounts were actively managed. International equity assets are diversified across established and emerging markets with exposure to both large, mid, and small cap companies.

The following is a summary of the performance of the international equity composite and its major components versus the broad international stock market averages and peer groups:

| | |
|-------------------------------------|--------|
| DGRS International Equity Composite | -6.0% |
| MSCI World ex. US | -8.8% |
| Peer Group Ranking | 25 |
| Established Market Equity Composite | -10.0% |
| MSCI EAFE Index | -10.6% |
| Peer Group Ranking | 52 |

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

| | |
|-----------------------------------|--------|
| Emerging Market Equity Composite | 6.8% |
| MSCI Emerging Markets Index | 4.6% |
| Peer Group Ranking | 16 |
| Small Cap International Composite | -16.2% |
| Citigroup EMI World ex. US | -14.5% |
| Peer Group Ranking | 93 |

Tactical Asset Allocation (TAA)

The TAA account consists of a continuously variable combination of domestic and international equities and fixed income. The TAA account manager has the flexibility to allocate the assets among domestic and international equities and fixed income based upon the manager's expectations as to which combination of these asset classes will provide the greatest total return.

The overall TAA return was -10.5 percent. This return ranked in the bottom quartile of the ICC TAA peer group universe. The TAA account underperformed its objective (-3.7 percent) by 680 basis points.

Fixed Income

Substantially all of the System's fixed income assets are actively managed in a combination of separately managed accounts and commingled funds. Accounts within the fixed income composite are diversified among domestic, international, established markets, emerging markets, government, investment grade corporate, mortgage, and high-yield mandates. The following is a summary of the distribution of targeted asset allocation within the fixed income composite as of June 30, 2008:

| | |
|--|-----|
| Domestic composite | 73% |
| Global composite | 27% |
| Domestic core (government, investment grade corporate) | 30% |
| Domestic mortgages | 20% |
| Domestic high yield | 23% |
| Global established markets, investment grade | 18% |
| Global emerging markets | 9% |

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The following is a summary of the performance of the fixed income composite and its major components versus their peer group and the broad fixed income market averages:

| | |
|---------------------------------------|-------|
| Fixed Income Composite | 4.7% |
| Domestic Fixed Income | 3.0% |
| Lehman Aggregate | 7.1% |
| Peer Group Ranking | 75 |
| Domestic Core (investment grade) | 6.0% |
| Citigroup Broad Investment Grade | 7.8% |
| Peer Group Ranking | 60 |
| Mortgages (privately placed) | 10.2% |
| Actuarial Rate | 7.9% |
| Domestic High Yield | -2.2% |
| Merrill Lynch High Yield Master Index | -2.0% |
| Peer Group Ranking | 93 |
| Global Core Fixed Income | 9.3% |
| Citigroup World Government Bond Index | 17.0% |
| Peer Group Ranking | 63 |
| Emerging Market Debt | 9.6% |
| JP Morgan Emerging Market Bond Index | 11.9% |
| Peer Group Ranking | 11 |

The overall fixed income composite return was adversely impacted by the allocation to corporate bonds, mortgages, and high yield bonds within the domestic fixed income accounts. Credit spreads widened significantly from their historic lows throughout the year, especially for high yield issues. Wider spreads resulted in lower prices which detracted from returns.

The domestic core fixed income composite return was 6.0 percent, which ranked in the third quartile of the ICC domestic investment grade universe. This return was 110 basis points below the return of the Lehman Aggregate (7.1) and 70 basis points below the median public bond fund (6.7). Core fixed income accounts are overweight to mortgages and corporate bonds whose returns were negatively impacted by a rising spread environment.

The mortgage composite consists entirely of privately placed first mortgages secured by commercial real estate, predominately retail and multi-family properties. No mortgage investment had a loan to value greater than 80 percent. DGRS investment guidelines do not permit sub-prime mortgages.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The domestic high yield fixed income composite return was -2.2 percent, which ranked in the bottom quartile of the ICC domestic high yield bond universe. This return was 20 basis points below its objective as measured by the Merrill Lynch High Yield Master (-2.0) and 260 basis points below the median high yield bond fund. Performance of the domestic high yield composite was adversely impacted by the Board's overweight to single-B credit quality issues whose returns were brought down by widening credit spreads. The Board imposes limitations on the amount which the high yield managers may invest in securities rated below B-/B3. These limitations improved performance of the high yield composite relative to the benchmark.

The global core fixed income composite return was 9.3 percent, which ranked in the third quartile of the ICC global core bond universe. This return was well below its objective as measured by the Citigroup World Government Bond Index (17.0 percent) and 160 basis points below the median global bond fund. Most of the global bond holdings are hedged back to the U.S. dollar (base currency). These hedges detracted from performance relative to the benchmark.

The emerging market debt composite return was 9.6 percent, which ranked just below the top decile of the ICC emerging market debt universe. This return was 440 basis points better than its objective as measured by the JP Morgan Emerging Market Bond Index (5.2) and 460 basis points better than the median emerging market bond fund (5.0). Performance of the emerging market debt composite benefited from favorable country and currency allocations.

Real Estate

The DGRS real estate portfolio consists of both separately owned and managed properties as well as investments in real estate investment trusts and real estate commingled funds. The portfolio is broadly diversified by property type and geographic location. Essentially all of the DGRS real estate portfolio is located within the United States.

Approximately 75 percent of the portfolio consists of core property investments with the balance consisting of non-core investments. Core investments are those whose total return is expected to be primarily derived from current income, whereas non-core investments are those whose total return is expected to be primarily derived from appreciation in value. The Board relies on the current income from real estate to defray a disproportionate fraction of the benefits and expenses of the System.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The DGRS real estate composite return for the year was 7.5 percent. This was below the return of the broad domestic real estate market, as measured by the NCREIF Property Index (NPI), which was up 9.2 percent. The following is a summary of the components of the real estate composite return versus the NPI:

| | <u>DGRS</u> | <u>NPI</u> |
|------------------------|-------------|------------|
| Total Return | 7.5 | 9.2 |
| Income Component | 6.2 | 5.3 |
| Appreciation Component | 1.2 | 3.8 |

State statutes limit the fraction of the total assets of the System which may be invested in real estate. At June 30, 2008, total market value of real estate assets was \$421.6 million.

Cash

During the current year, DGRS paid out approximately \$271 million in benefits to its members. This relatively high level of benefit payments necessitates maintaining relatively high cash balances at all times.

DGRS runs its own money market fund to invest not only the cash needed to pay the benefits and expenses of the System, but also the cash balances which accumulate in the managed accounts. The money market fund provides daily liquidity and supports unlimited deposits, withdrawals, and check writing. All cash receipts, disbursements, and movements, as well as the settlements of purchases and sales of securities, are cleared through the money market fund.

The DGRS cash composite return for the year was 6.2 percent. This return ranked in the top decile of the ICC cash management universe. This compares very favorably with three-month U.S. Treasury bills, which returned 3.6 percent. Returns from cash on an absolute basis have been constrained since 2001 by the Federal Reserve Board policy of maintaining relatively low levels of short-term interest rates coupled with a relatively flat and, at times, inverted yield curve.

Market Neutral

Market neutral portfolios are expected to provide a positive absolute return regardless of the direction of the domestic stock market. To provide this positive absolute return, the DGRS market neutral portfolios are constructed to contain essentially equal and offsetting long and short domestic equity positions. The Board looks to its market neutral allocation as a bond substitute with lower expected volatility.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

The DGRS market neutral composite returned 7.7 percent for the year. This return ranked just below the top quartile of the ICC market neutral peer group universe. The objective for the performance of the market neutral composite is the investment return of three-month U.S. Treasury bills plus 3 percent per annum. For the current year, the annualized return from three-month U.S. Treasury bills was 3.6 percent, making the market neutral performance objective 6.6 percent. Accordingly, the DGRS market neutral composite exceeded its objective by 90 basis points. The market neutral composite out-performed the median market neutral fund by 50 basis points.

Alternative Investments

Alternative investments are those investments which do not fit into any of the foregoing asset classes. Broad categories of alternative investments include private equity, venture capital, buyouts, mezzanine debt, distressed debt, private placements, and hedge funds. The target asset allocation for alternative investments is 8 percent of total system assets. The target asset allocation within the alternative investment asset class is 50 percent (4 percent of total System assets) to absolute return strategies (hedge funds) and 50 percent to all other assets. The Board utilizes a retained consultant to evaluate and monitor alternative investments.

The return from the alternative investment portfolio was -6.6 percent for the year. Investment performance was impaired by substantial write-downs on existing non-performing investments. These write-downs totaled approximately 12 percent of the total value of alternative investments.

State statutes impose limitations on what fraction of the total assets of the System may be invested in assets other than publicly traded equities, government bonds, investment grade bonds, real estate, and certain mortgages (basket clause assets) to 15 percent. Basket clause assets include high yield bonds. At June 30, 2008, the total market value of basket clause assets was \$519.1 million, which represented 15.0 percent of the total assets of the System.

Liabilities

Liabilities shown in the financial statements consist of accounts payable and liabilities pursuant to securities lending. Accounts payable consist of those amounts payable for goods and services purchased to operate the System plus the trade settlement amounts for securities purchases having a settlement date which occurred after the fiscal year end. Liabilities related to securities lending are discussed in the following section.

Securities Lending

The System participates in a securities lending program. The master securities custodian acts as the exclusive agent of the System. The agent fully indemnifies the System against borrower default in compliance with state statutes. At year end, the market value of securities on loan was approximately \$410 million.

General Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

When a security is placed on loan, the System receives cash collateral in an amount not less than 102 percent of the market value of the securities loaned. Loans are marked-to-market daily. Cash collateral is invested by the agent in a separately managed account. Borrowers receive a daily interest rebate on the cash collateral provided to the agent. Earnings from securities lending is the difference or spread between the earnings on the cash collateral and the interest rebate paid to the borrower.

The market value of the collateral invested is carried as an asset and the amount of collateral repayable to the borrower upon return of the securities from loan is carried as a liability in the financial statements. Investments are high quality fixed income and either floating rate or very short-term fixed-rate instruments. Minimum credit quality is A1/P1. Accordingly, the carrying values of the securities lending assets and liabilities are equal, plus, or minus a diminimis amount.

After the close of the fiscal year, Lehman Brothers filed for bankruptcy protection. At June 30, 2008, the System owned in its securities lending collateral reinvestment account approximately \$26 million cost basis of Lehman senior unsecured notes. These securities have since traded below 25 cents on the dollar. The securities lending and collateral management agent has offered to cover some of the potential losses attributable to these securities.

Contacting the General Retirement System's Management

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System's accountability for the money it receives from city and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's offices.

General Retirement System of the City of Detroit

Statement of Plan Net Assets June 30, 2008 (with comparative totals for June 30, 2007)

| | 2008 | 2007 |
|--|-------------------------|-------------------------|
| Assets | | |
| Cash (Note 3) | \$ 10,939,147 | \$ 15,414,839 |
| Investments - At fair value (Note 3): | | |
| Short-term investments | 93,461,283 | 93,306,133 |
| Stocks | 1,206,707,654 | 1,577,298,085 |
| Commingled equity funds | 725,001,574 | 888,360,742 |
| Bonds | 345,171,018 | 375,357,794 |
| Mortgage-backed securities | 71,436,082 | 95,275,069 |
| Pooled investments | 26,165,360 | 211,980,673 |
| Equity interest in real estate | 458,232,023 | 84,495,722 |
| Private placements | 369,270,586 | 456,557,446 |
| Mortgage and construction loans | 166,277,904 | 92,345,980 |
| Accrued investment income | 13,561,485 | 14,317,270 |
| Contributions receivable | 14,507,751 | 24,521,431 |
| Receivables from investment sales | 48,650,292 | 51,797,263 |
| Other accounts receivable | 541,847 | 473,054 |
| Capital assets (Note 1) | 433,197 | 422,237 |
| Cash and investments held as collateral for securities lending (Note 3): | | |
| Asset-backed securities | 69,811,379 | 135,469,767 |
| Bank notes | 75,153,148 | 58,000,000 |
| Certificates of deposit floating rate | 60,046,989 | 148,966,910 |
| Money market | 52,049,785 | 81,622,000 |
| U.S. corporate floating rate | 167,280,548 | 119,967,468 |
| | 3,974,699,052 | 4,525,949,883 |
| Liabilities | | |
| Payables for investment purchases | 94,700,599 | 83,174,040 |
| Claims payable to retirees and beneficiaries | 2,857,635 | 5,219,683 |
| Due to City of Detroit | 2,393,223 | 3,103,995 |
| Other liabilities | 33,638,020 | 44,413,961 |
| Amounts due broker under securities lending agreement | 424,341,849 | 544,026,145 |
| | 557,931,326 | 679,937,824 |
| Net Assets Held in Trust for Pension Benefits | | |
| (a schedule of analysis of funding progress is presented in the required supplemental information) | \$ 3,416,767,726 | \$ 3,846,012,059 |

General Retirement System of the City of Detroit

Statement of Changes in Plan Net Assets Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

| | 2008 | 2007 |
|---|-------------------------|-------------------------|
| Additions | | |
| Investment income: | | |
| Interest and dividend income | \$ 126,921,518 | \$ 143,195,858 |
| Net (depreciation) appreciation in fair value | (332,122,071) | 487,316,994 |
| Investment expense | (15,306,262) | (18,264,142) |
| Securities lending income | 2,535,736 | 1,432,857 |
| Other income | 915,965 | 640,563 |
| Net investment (loss) income | (217,055,114) | 614,322,130 |
| Contributions: | | |
| Employee | 20,358,640 | 19,438,360 |
| Employer | 43,168,448 | 41,444,808 |
| Total additions | (153,528,026) | 675,205,298 |
| Deductions | | |
| Retirees' pension and annuity benefits | 196,775,146 | 206,185,678 |
| Member refunds and withdrawals | 74,217,378 | 73,588,557 |
| General and administrative expenses | 4,620,015 | 4,396,594 |
| Depreciation expense | 103,768 | 101,630 |
| Total deductions | 275,716,307 | 284,272,459 |
| Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits | (429,244,333) | 390,932,839 |
| Net Assets Held in Trust for Pension Benefits - Beginning of year | 3,846,012,059 | 3,455,079,220 |
| Net Assets Held in Trust for Pension Benefits - End of year | \$ 3,416,767,726 | \$ 3,846,012,059 |

General Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2008 and 2007**

Note I - Summary of Significant Accounting Policies

The City of Detroit (the "City") sponsors the General Retirement System of the City of Detroit (the "System"), which is a contributory single-employer retirement plan. The System, which is administered by the System's board of trustees, is comprised of a defined benefit plan and a defined contribution plan. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries.

The General Retirement System of the City of Detroit is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The trustees of the plan have fiduciary obligations and legal liability for any violations of fiduciary duties as independent trustees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City of Detroit as a Pension Trust Fund. The assets of the Pension Trust Fund include no securities of or loans to the City or any other related party.

Basis of Accounting - The General Retirement System of the City of Detroit's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management. Approximately 29 percent of the System's assets are not publicly traded and, therefore, do not always have a readily determinable market value.

Capital Assets - Capital assets for the System represent office equipment and furniture. Depreciation expense is calculated by allocating the net cost of the assets over their estimated useful lives.

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity 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.

Note 2 - Plan Description and Contribution Information

At June 30, 2008, the membership of the defined benefit plan and the defined contribution plan consisted of the following:

| | Defined Benefit Plan | Defined Contribution Plan |
|---|-------------------------|---------------------------------|
| Retirees and beneficiaries receiving pension benefits | 11,420 | 1,381 |
| Terminated plan members entitled to but not yet receiving benefits | 2,023 | 1,244 |
| Active plan members | 9,361 | 8,212 |

Plan Description - The System provides retirement benefits, as well as survivor and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City Charter and negotiation with the employees' collective bargaining units.

Contributions - The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings. The contribution rate for 2007-2008 and 2006-2007 was 10.21 percent and 11.06 percent, respectively, of active annual payroll, in addition to a portion being funded from the use of pension obligation certificate proceeds received during 2005. The System's actuary has computed the portion of the total required contribution that is funded through the certificate proceeds. This amount is transferred from the Accrued Liability Reserve Fund to the Pension Reserve Fund. Contributions from the employer for the years ended June 30, 2008 and 2007 totaled \$43,168,448 and \$41,444,808, respectively.

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Plan Description and Contribution Information (Continued)

Employees may also elect to contribute (a) 0 percent, (b) 3 percent of annual compensation up to the Social Security wage base and 5 percent of any excess over that, (c) 5 percent, or (d) 7 percent toward annuity savings. Contributions from employees during the years ended June 30, 2008 and 2007 totaled \$20,358,640 and \$19,438,360, respectively.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the boards of trustees in accordance with the City Charter, union contracts, and plan provisions.

Annual Pension Costs - The annual contribution for the year ended June 30, 2008 was \$43,168,448. The annual contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.9 percent investment rate of return, (b) projected salary increases of 4.0 percent per year, (c) additional salary increases of 0 percent to 5.5 percent per year based on merit and/or longevity, and (d) cost of living adjustments of 2.25 percent per year. Both (a) and (b) are determined to be using techniques that smooth the effects of short-term volatility over a three-year period. The unfunded actuarial liability is being amortized as a level of percent of payroll on an open basis. The remaining amortization period is 30 years.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 98.8 percent funded. The actuarial accrued liability for benefits was \$3,629,217,059 and the actuarial value of assets was \$3,586,550,485, resulting in an unfunded actuarial accrued liability of \$42,666,574. The covered payroll (annual payroll for active employees covered by the plan) was \$361,701,481 and the ratio for the unfunded actuarial accrued liability to the covered payroll was 11.8 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Plan Description and Contribution Information (Continued)

Three-year trend information as of June 30 is as follows:

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|---------------|---------------|
| | 2006 | 2007 | 2008 |
| Annual Pension Costs (APC) | \$ 58,162,088 | \$ 41,444,808 | \$ 43,168,448 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

See Note 4 for disclosure of required reserves.

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, 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 is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority other than real estate asset balances being in excess of statutory limits by approximately 3.4 percent.

Declines in Investment Values - Subsequent to year end, the fair value of the Company's investment portfolio declined by approximately \$645,000,000, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate risks, market, credit risks, and overall market volatility. 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 near term and such changes could materially affect the amounts reported on the statement of changes in plan net assets. The System's cash and investments are subject to several types of risk, which are examined in more detail below:

General Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2008 and 2007**

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank's failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At June 30, 2008 and 2007, the System had \$10,839,147 and \$4,765,398, respectively, of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The 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 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 System's investment policy does not restrict investment maturities. At June 30, 2008, the average maturities of investments broken down by years are as follows:

| Investment Type | Fair Value (\$000) | Investment Maturities (in years) | | | |
|---------------------------|-----------------------|----------------------------------|-------------------|-------------------|-------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. government | \$ 79,974 | \$ 7,997 | \$ 25,400 | \$ 23,201 | \$ 23,376 |
| Mortgage backed | 79,090 | 252 | 885 | 1,922 | 76,031 |
| Corporate | 227,477 | 4,352 | 83,441 | 78,460 | 61,224 |
| Other fixed income | 34,928 | 268 | 11,114 | 19,778 | 3,769 |
| Convertible bonds | 426 | - | - | 426 | - |
| Pooled and mutual funds** | 155,759 | 10 | - | - | - |
| Government agencies | 6,936 | 6,824 | - | - | 112 |
| Commingled bond funds** | 90 | - | - | - | - |
| Mortgages | 111,308 | 13,612 | 69,108 | 28,588 | - |
| Construction loans | 68,790 | 60,693 | 8,097 | - | - |
| Total | <u>\$ 764,778</u> | <u>\$ 94,008</u> | <u>\$ 198,045</u> | <u>\$ 152,375</u> | <u>\$ 164,512</u> |

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

At June 30, 2007, the average maturities of investments broken down by years are as follows:

| Investment Type | Investment Maturities (in years) | | | | |
|-------------------------------------|----------------------------------|------------------|-------------------|-------------------|-------------------|
| | Fair Value (\$000) | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. government | \$ 135,468 | \$ 24,107 | \$ 42,342 | \$ 44,380 | \$ 24,639 |
| Mortgage backed | 79,125 | - | 1,283 | 4,830 | 73,012 |
| Collateralized mortgage obligations | 16,432 | - | 622 | 2,802 | 13,008 |
| Corporate | 208,183 | 12,407 | 66,310 | 86,761 | 42,705 |
| Other fixed income | 46,426 | - | 7,675 | 31,848 | 6,903 |
| Convertible investments | 611 | - | - | 611 | - |
| Commingled bond funds | 163 | 163 | - | - | - |
| Pooled and mutual funds** | 120,756 | 10 | - | - | - |
| Mortgages | 65,401 | 24,064 | 27,337 | 14,000 | - |
| Total | <u>\$ 672,565</u> | <u>\$ 60,751</u> | <u>\$ 145,569</u> | <u>\$ 185,232</u> | <u>\$ 160,267</u> |

** Not all pooled and mutual funds and commingled funds are subject to interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices. As of June 30, 2008, the credit quality ratings of debt securities (other than that guaranteed by the U.S. government) as rated by S&P are as follows:

| Investment Type and Fair Value (\$000) | AAA | AA | A | BBB | BB |
|--|------------------|------------------|------------------|------------------|------------------|
| U.S. government | \$ 29,844 | \$ - | \$ 13,216 | \$ 3,359 | \$ 801 |
| Mortgage backed | 3,554 | 392 | - | - | - |
| Corporate | 42,053 | 8,886 | 15,934 | 29,604 | 40,209 |
| Other fixed income | 963 | 2,340 | 1,779 | 44,710 | 8,150 |
| Convertible bonds | - | - | - | - | 426 |
| Commingled bond funds | - | - | - | - | - |
| Government agencies | - | - | - | - | - |
| State and local obligations | - | - | - | 112 | - |
| Pooled and mutual funds | - | - | - | - | - |
| Mortgages | - | - | - | - | - |
| Construction loans | - | - | - | - | - |
| Total | <u>\$ 76,414</u> | <u>\$ 11,618</u> | <u>\$ 30,929</u> | <u>\$ 77,785</u> | <u>\$ 49,586</u> |

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

| Investment Type and Fair Value (\$000) | CCC and | | | |
|--|------------------|------------------|------------------|-------------------|
| | B | Below | A-I | NR |
| U.S. government | \$ - | \$ - | \$ - | \$ 4,528 |
| Mortgage backed | - | - | - | 2,311 |
| Corporate | 70,763 | 12,916 | - | 6,857 |
| Other fixed income | 12,557 | 3,361 | - | 593 |
| Convertible bonds | - | - | - | - |
| Commingled bond funds | - | - | - | 90 |
| Government agencies | - | - | 6,824 | - |
| State and local obligations | - | - | 6,593 | - |
| Pooled and mutual funds | - | - | - | 155,759 |
| Mortgages | - | - | - | 111,308 |
| Construction loans | - | - | - | 68,790 |
| Total | <u>\$ 83,320</u> | <u>\$ 16,277</u> | <u>\$ 13,417</u> | <u>\$ 350,236</u> |

As of June 30, 2007, the credit quality ratings of debt securities (other than that guaranteed by the U.S. government) as rated by S&P are as follows:

| Investment Type and Fair Value (\$000) | AAA | AA | A | BBB | BB |
|--|------------------|-----------------|------------------|------------------|------------------|
| U.S. government | \$ 66,057 | \$ - | \$ 13,103 | \$ - | \$ 5,144 |
| Mortgage backed | 32,722 | 2,376 | 5,957 | 22,898 | 32,914 |
| Corporate | 927 | 663 | 3,737 | 3,459 | 6,891 |
| Commingled bond funds | - | - | - | - | - |
| Other fixed income | - | - | - | - | - |
| Agencies | - | - | - | - | - |
| Pooled and mutual funds | - | - | - | - | - |
| Mortgages | - | - | - | - | - |
| Construction loans | - | - | - | - | - |
| Total | <u>\$ 99,706</u> | <u>\$ 3,039</u> | <u>\$ 22,797</u> | <u>\$ 26,357</u> | <u>\$ 44,949</u> |

| Investment Type and Fair Value (\$000) | CCC and | | | |
|--|------------------|------------------|---------------|-------------------|
| | B | Below | A-I | NR |
| U.S. government | \$ - | \$ - | \$ - | \$ 4,945 |
| Mortgage backed | - | - | - | - |
| Corporate | 75,907 | 17,243 | 169 | 17,913 |
| Commingled bond funds | - | - | - | 163 |
| Other fixed income | 20,604 | 8,325 | - | 1,820 |
| Agencies | 548 | - | - | 63 |
| Pooled and mutual funds | - | - | - | 120,756 |
| Mortgages | - | - | - | 65,400 |
| Construction loans | - | - | - | 26,945 |
| Total | <u>\$ 97,059</u> | <u>\$ 25,568</u> | <u>\$ 169</u> | <u>\$ 238,005</u> |

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The System does not restrict the amount of investments in foreign currency. For the year ended June 30, 2008, the following deposits and securities are subject to foreign currency risk (in \$000):

| | <u>Fixed Income</u> | <u>Equity</u> | <u>Cash Equivalent</u> | <u>Cash</u> |
|------------------------|---------------------|-------------------|----------------------------|------------------|
| Australian dollar | \$ 8,174 | \$ 16,900 | \$ 22,985 | \$ 1,014 |
| Brazilian real | 3,359 | 617 | - | 12 |
| British pound sterling | 4,777 | 60,757 | 60,921 | (378) |
| Bulgarian lev | - | 1,614 | - | 116 |
| Canadian dollar | 2,194 | 11,273 | (7,393) | 1,544 |
| Czech koruna | - | 3,069 | (864) | - |
| Danish krone | - | 3,828 | - | (203) |
| Euro currency | - | 94,466 | (141,682) | 4,901 |
| Hong Kong dollar | - | 5,154 | - | 797 |
| Hryvnia | - | 1,919 | - | 3 |
| Hungarian forint | - | 4,083 | (733) | 2 |
| Iceland krona | 1,550 | - | - | - |
| Indonesian rupiah | 1,641 | 79 | - | 40 |
| Israeli shekel | - | 6 | - | - |
| Japanese yen | - | 50,082 | 32,810 | 1,598 |
| Kroon | - | 17 | - | - |
| Malaysian ringgit | 5,030 | - | - | 1 |
| Mexican Nuevo peso | 3,549 | 1,048 | (768) | - |
| New Romanian leu | - | 1,824 | - | - |
| New Taiwan dollar | - | 332 | - | 448 |
| New Zealand dollar | 3,013 | 223 | (25,477) | - |
| Norwegian krone | 954 | 9,053 | 49,557 | 514 |
| New Turkish lira | - | 27 | 1,186 | (4) |
| Philippines peso | - | - | - | 1 |
| Polish zloty | 4,220 | 5,192 | (1,825) | 1 |
| Renminbi yuan | - | 390 | - | - |
| Russian new ruble | - | 2,993 | - | 5 |
| Singapore dollar | 4,570 | 3,233 | - | 221 |
| South African rand | 2,815 | - | - | 1 |
| South Korean won | - | 344 | - | - |
| Swedish krona | 2,820 | 2,919 | 41,993 | 18 |
| Swiss franc | - | 20,190 | 6,947 | (93) |
| Thai baht | - | - | - | 103 |
| Total | <u>\$ 48,666</u> | <u>\$ 301,632</u> | <u>\$ 37,657</u> | <u>\$ 10,662</u> |

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

For the year ended June 30, 2007, the following deposits and securities are subject to foreign currency risk (in \$000):

| | Fixed Income | Equity | Cash Equivalent | Cash |
|------------------------|------------------|-------------------|--------------------|------------------|
| Australian dollar | \$ 8,104 | \$ 19,909 | \$ - | \$ 501 |
| Brazilian real | 3,677 | 260 | - | 188 |
| British pound sterling | 5,106 | 72,457 | - | (40) |
| Bulgarian lev | - | 650 | - | - |
| Canadian dollar | 3,884 | 10,446 | - | 107 |
| Cyprus pound | - | 1,634 | - | - |
| Czech koruna | - | 2,828 | - | 91 |
| Danish krone | - | 2,384 | - | 182 |
| Euro currency | 8,753 | 146,785 | 205 | 3,619 |
| Hong Kong dollar | - | 9,335 | - | 365 |
| Hryvnia | - | 1,367 | - | - |
| Hungarian forint | - | 6,233 | - | 145 |
| Indonesian rupiah | 2,391 | 105 | - | 37 |
| Japanese yen | - | 61,503 | - | 3,744 |
| Malaysian ringgit | 3,741 | - | - | 1 |
| Mexican Nuevo peso | 3,509 | 882 | - | - |
| New Romanian leu | - | 1,145 | - | - |
| New Taiwan dollar | - | 1,412 | - | 94 |
| New Zealand dollar | 2,110 | 317 | - | 637 |
| Norwegian krone | - | 11,036 | - | 19 |
| New Turkish lira | - | 1,842 | - | 114 |
| Philippines peso | - | 29 | - | 1 |
| Polish zloty | 5,361 | 7,648 | - | (9) |
| Renminbi yuan | - | 1,391 | - | - |
| Russian new ruble | - | 3,044 | - | - |
| Singapore dollar | 5,210 | 2,196 | - | 194 |
| South African rand | 3,628 | - | - | 1 |
| South Korean won | - | 1,868 | - | (11) |
| Swedish krona | 2,881 | 12,651 | - | 53 |
| Swiss franc | - | 26,079 | - | 54 |
| Thai baht | - | 221 | - | 168 |
| Total | <u>\$ 58,355</u> | <u>\$ 407,657</u> | <u>\$ 205</u> | <u>\$ 10,255</u> |

General Retirement System of the City of Detroit

Notes to Financial Statements
June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate account with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2008 was 26 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the System as of June 30, 2008 was \$424,341,849 and \$409,154,657, respectively.

| Securities Lent | Underlying Securities |
|------------------------------|--------------------------|
| U.S. government and agencies | \$ 13,406,117 |
| U.S. corporate fixed income | 27,040,548 |
| U.S. equities | 352,233,542 |
| Non-U.S. governments | 3,429,189 |
| Non-U.S. equities | 13,045,261 |
| Total | \$ 409,154,657 |

General Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

The fair market value of collateral of the securities lending at June 30, 2008 was \$424,341,849. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), non-U.S. government, and U.S. corporate securities (floating rate). At June 30, 2008, the System had approximately \$26,000,000 in unsecured notes with Lehman Brothers under the securities lending agreement. Subsequent to year end, Lehman Brothers applied for bankruptcy. As of this date, the approximate loss on the transaction is unknown as the case is now in bankruptcy court. The securities lending agent has agreed to make up a fraction of the losses after the completion of bankruptcy court.

The following represents the balances relating to the securities lending transactions as of June 30, 2007; investments are reported at fair value:

| Securities Lent | Underlying Securities |
|------------------------------|--------------------------|
| U.S. government and agencies | \$ 43,974,744 |
| U.S. corporate fixed income | 33,012,681 |
| U.S. equities | 425,661,531 |
| Non-U.S. governments | 7,074,526 |
| Non-U.S. equities | 18,361,264 |
| Total | <u>\$ 528,084,746</u> |

The fair market value of collateral of the securities lending at June 30, 2007 was \$544,026,145. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), mutual funds, and U.S. corporate securities (floating rate).

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2008 and 2007, the System's reserves have been fully funded as follows:

| | 2008 | 2007 |
|-------------------------------------|----------------|----------------|
| Reserved for employee contributions | \$ 732,670,998 | \$ 733,143,529 |
| Reserved for retired employees | 1,806,331,183 | 1,753,886,419 |

General Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2008 and 2007**

Note 4 - Reserves (Continued)

A statement of changes in plan net assets by fund is included in the other supplemental information.

Note 5 - Pension Obligation Certificates

In June 2005, the City of Detroit issued \$1,440,000,000 of pension obligation certificates to provide funding for the unfunded actuarially accrued liability (UAAL) of both the General Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit. The pension obligation certificate proceeds were used to fund the combined liability of both plans that existed at June 30, 2003. Any future UAAL that may arise will continue to be paid by the City, as well as the annual normal cost. The proceeds of the pension obligation certificates were deposited into the System and are accounted for in the Accrued Liability Fund (Pension Obligation Certificate) Reserve. Approximately \$740,000,000 was deposited into the General Retirement System of the City of Detroit and approximately \$630,000,000 was deposited into the Police and Fire Retirement System of the City of Detroit, net of issuance costs and premiums. On an annual basis, funds will be transferred from the Accrued Liability Fund reserve to the pension accumulation reserve on the advice of the actuary. The Accrued Liability Fund was credited with investment earnings commensurate with the overall earnings of the System.

Note 6 - Credit Enhancement Agreements

During the year, the System had credit enhancement agreements totaling \$73,176,000. In exchange for the credit enhancement, the System receives fees from the companies to whom the enhancement agreements have been given.

In addition, subsequent to year end, the System has pledged as collateral approximately \$107 million to secure the System's obligation under an additional credit enhancement agreement.

Required Supplemental Information

General Retirement System of the City of Detroit

Required Supplemental Information Schedule of Analysis of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|-------------------------------------|---|---------------------------------|--------------------------|---------------------------|---|
| 06/30/02 | \$ 2,761,203,680 | \$ 3,276,591,209 | \$ 515,387,529 | 84.3 | \$ 440,680,045 | 117.0 |
| 06/30/03 | 2,537,668,376 | 3,270,627,177 | 732,958,801 | 77.6 | 448,579,064 | 163.4 |
| 06/30/04 | 2,470,243,470 | 3,383,926,672 | 913,683,202 | 73.0 | 444,596,299 | 205.5 |
| 06/30/05 | 3,222,393,861 | 3,347,387,652 | 124,993,791 | 96.3 | 390,593,600 | 32.0 |
| 06/30/06 | 3,373,687,677 | 3,434,288,153 | 60,600,476 | 98.2 | 361,151,456 | 16.8 |
| 06/30/07 | 3,586,550,485 | 3,629,217,059 | 42,666,574 | 98.8 | 361,701,481 | 11.8 |

General Retirement System of the City of Detroit

Required Supplemental Information Schedule of Employer Contributions

| Year Ended June 30 | Annual Required Contribution | Contribution Made | Percentage Contributed | Transfer from Accrued Liability Reserve* |
|-----------------------|---------------------------------|----------------------|---------------------------|---|
| 2003 | \$ 72,859,246 | \$ 72,859,246 | 100 | \$ - |
| 2004 | 95,876,076 | 95,876,076 | 100 | - |
| 2005 | 41,689,528 | 41,689,528 | 100 | 64,807,084 |
| 2006 | 42,799,581 | 58,162,088 | 135 | 32,651,232 |
| 2007 | 41,444,808 | 41,444,808 | 100 | 39,840,591 |
| 2008 | 43,168,448 | 43,168,448 | 100 | 40,430,886 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation, follows:

| | |
|-------------------------------|----------------------------|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent |
| Remaining amortization period | 30 years |
| Asset valuation method | Three-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.9% |
| Projected salary increases | 4.0%-9.5% |
| Includes inflation at | 4.0% |
| Cost of living adjustments | 2.25% |

* In accordance with the pension obligation certificate requirements, annual transfers are made from the Accrued Liability Fund to the Pension Accumulation Reserve for the amortization of the unfunded liability that existed at the date the certificates were issued.

Other Supplemental Information

General Retirement System of the City of Detroit

Other Supplemental Information Description of Funds

Annuity Savings Fund - This fund represents cumulative required and voluntary contributions made by the active employees plus accumulated interest.

Annuity Reserve Fund - Transfers are made from the Annuity Savings Fund into the Annuity Reserve Fund when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions.

Both annuity funds are referred to as defined contribution plans.

Market Stabilization Fund - This fund represents designations from the plans' investment income (loss) to be used to cushion the market value adjustments within the other funds. The boards of trustees authorized the creation of this fund, and the reserve amounts are calculated using a three-year average method.

Accrued Liability Reserve Fund - This fund originated during June 2005 when the City issued pension obligation certificates to fund the unfunded actuarial accrued liability that existed at June 30, 2003 (subject UAAL). On an annual basis, the actuary will inform the System of the amount to transfer from the Accrued Liability Reserve to the Pension Accumulation Fund in lieu of contributions from the City for the subject UAAL.

Pension Accumulation Fund - This fund represents accumulated City contributions to the pension system for the payment of pensions and other benefits to future retirees. Additionally, pre-employment military service credit contributions are captured in this fund.

Pension Reserve Fund - This fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the Pension Accumulation Fund.

General Retirement System of the City of Detroit

| | Annuity Reserves | |
|---|-----------------------|----------------------|
| | Annuity Savings Fund | Annuity Reserve Fund |
| Additions | | |
| Net investment income | \$ 55,704,018 | \$ 3,195,100 |
| Contributions: | | |
| Employee | 20,339,030 | - |
| Employer | - | - |
| Total additions | 76,043,048 | 3,195,100 |
| Deductions | | |
| Retirees' pension and annuity benefits | - | 5,424,733 |
| General and administrative expenses | - | - |
| Depreciation expense | - | - |
| Member refunds and withdrawals | 73,127,536 | - |
| Total deductions | 73,127,536 | 5,424,733 |
| Net Additions (Deductions) - Before transfers | 2,915,512 | (2,229,633) |
| Transfers - Net | (3,388,043) | 5,205,953 |
| Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits | (472,531) | 2,976,320 |
| Net Assets Held in Trust for Pension Benefits - Beginning of year | 733,143,529 | 42,997,446 |
| Net Assets Held in Trust for Pension Benefits - End of year | \$ 732,670,998 | \$ 45,973,766 |

Other Supplemental Information
Statement of Changes in Plan Net Assets by Fund
Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

| Market Stabilization Fund | Accrued Liability Reserve Fund | Pension Reserves | | Total | |
|---------------------------------|--------------------------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | Pension Accumulation Fund | Pension Reserve Fund | 2008 | 2007 |
| \$ (488,185,321) | \$ 56,115,591 | \$ 22,368,511 | \$ 133,746,987 | \$ (217,055,114) | \$ 614,322,130 |
| - | - | 19,610 | - | 20,358,640 | 19,438,360 |
| - | - | 43,168,448 | - | 43,168,448 | 41,444,808 |
| (488,185,321) | 56,115,591 | 65,556,569 | 133,746,987 | (153,528,026) | 675,205,298 |
| - | - | - | 191,350,413 | 196,775,146 | 206,185,678 |
| - | - | 4,620,015 | - | 4,620,015 | 4,396,594 |
| - | - | 103,768 | - | 103,768 | 101,630 |
| - | - | 1,089,842 | - | 74,217,378 | 73,588,557 |
| - | - | 5,813,625 | 191,350,413 | 275,716,307 | 284,272,459 |
| (488,185,321) | 56,115,591 | 59,742,944 | (57,603,426) | (429,244,333) | 390,932,839 |
| - | (40,430,886) | (68,458,894) | 107,071,870 | - | - |
| (488,185,321) | 15,684,705 | (8,715,950) | 49,468,444 | (429,244,333) | 390,932,839 |
| 255,908,324 | 750,755,287 | 352,318,500 | 1,710,888,973 | 3,846,012,059 | 3,455,079,220 |
| <u>\$ (232,276,997)</u> | <u>\$ 766,439,992</u> | <u>\$ 343,602,550</u> | <u>\$ 1,760,357,417</u> | <u>\$ 3,416,767,726</u> | <u>\$ 3,846,012,059</u> |

General Retirement System of the City of Detroit

**Report to the Board of Trustees
June 30, 2008**



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
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To the Board of Trustees
General Retirement System of
the City of Detroit

We have recently completed our audit of the basic financial statements of General Retirement System of the City of Detroit (the "Retirement System") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, summary of unrecorded possible adjustments, and other recommendations which impact the Retirement System:

| | <u>Page</u> |
|---|-------------|
| Report on Internal Control | 1-3 |
| Results of the Audit | 4-7 |
| Summary of Unrecorded Possible Adjustments | 8 |
| Other Recommendations | 9-11 |

We are grateful for the opportunity to be of service to the Retirement System. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 10, 2008



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Report on Internal Control

December 10, 2008

To the Board of Trustees
General Retirement System
of the City of Detroit

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the General Retirement System of the City of Detroit's (the "Retirement System") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the General Retirement System of the City of Detroit as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Retirement System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

- The Retirement System invests in various types of non-publicly traded investments that are difficult to value as the values for these investments are not readily available from third-party sources. Currently, the value of the investment recorded is per confirmations received from companies in which the Retirement System is invested. We recommend that the Retirement System implement a process by which annual audited financial statements are obtained and the value of the investment is analyzed and recorded.
- While testing investments categorized as "equity real estate," it was noted that these investments were improperly recorded during the year. Only the asset balance was taken into consideration; the related mortgages and other debt were not netted to reduce the value of the investment to the net equity balance. These assets were properly reflected as of the beginning of the year. A large market value increase was recorded by the Retirement System in order to report these assets at the gross asset amount. In order to reduce the asset value back down to its proper balance, we recommended posting a journal entry to adjust these investments. To prevent this situation from recurring, we recommend that the results of audited financial statements are properly reflected and we recommend instituting a process whereby the values of these investments are reviewed for accuracy.
- During the audit, it was noted that as of mid-September, the investment reconciliation to the general ledger for the month of March 2008 (as well as subsequent months) was not complete. It was also noted that when these reconciliations are completed, there is no review performed. We recommend that investment reconciliations for each month be prepared in a timely manner. Additionally, we recommend that the reconciliations, as well as accompanying journal entries, are reviewed and evidenced with the reviewer's signature.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies noted above constitute material weaknesses.

To the Board of Trustees
General Retirement System
of the City of Detroit

December 10, 2008

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Beth Bialy". The signature is written in a cursive, flowing style.

Beth A. Bialy

A handwritten signature in black ink that reads "Wendy Trumbull". The signature is written in a cursive, flowing style.

Wendy N. Trumbull



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Results of the Audit

December 10, 2008

To the Board of Trustees
General Retirement System
of the City of Detroit

We have audited the financial statements of the General Retirement System of the City of Detroit (the "Retirement System") for the year ended June 30, 2008 and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 10, 2008, 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. We are responsible for planning and performing 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 General Retirement System of the City of Detroit. Our consideration of internal control was 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 and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 17, 2008.

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 General Retirement System of the City of Detroit are described in Note I to the financial statements.

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

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 valuation of non-publicly traded investments constitutes a particularly sensitive estimate affecting the financial statements. Management uses various means to value the investments, including confirmations from the investment managers, periodic appraisals, guidance from real estate advisors, etc.

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. The most sensitive disclosures relate to the valuation of non-publicly traded investments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit other than management's rescheduling of the audit to a later time frame than originally planned due to an unplanned building closure.

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

In addition, there were material misstatements detected as a result of audit procedures that were corrected by management. These adjustments related to the recording of equity real estate investments.

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's Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

Management's 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 organization'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.

Other Audit Findings or Issues

In the normal course of our professional association with the Retirement System, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Retirement System, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Retirement System's auditors.

During the audit, it became apparent that the Retirement System had exceeded the Public Act 314 of 1965 limitation for real estate investments. These types of investments are limited to 10 percent. The Retirement System management provided us with a schedule that indicated these types of investments were in excess of 13 percent.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the Retirement System's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

To the Board of Trustees
General Retirement System
of the City of Detroit

December 10, 2008

This information is intended solely for the use of board of trustees and management of the General Retirement System of the City of Detroit and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Beth Bialy". The signature is written in a cursive, flowing style.

Beth A. Bialy

A handwritten signature in black ink that reads "Wendy Trumbull". The signature is written in a cursive, flowing style.

Wendy N. Trumbull

Client: **City of Detroit General Employees Retirement System**
 Y/E: **June 30, 2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Assets | Liabilities | Net Assets | Additions | Deductions | Change in Net Assets |
|------------------------------|--|------------------------|-------------|-------------|-------------|----------------------|------------------------|
| KNOWN MISSTATEMENTS: | | | | | | | |
| A1 | | | | | | | |
| A2 | | | | | | | |
| ESTIMATE ADJUSTMENTS: | | | | | | | |
| B1 | To record loss on value of Tradewinds Airlines | \$ (13,500,000) | | | | \$ 13,500,000 | \$ (13,500,000) |
| B2 | To record loss on loan of Everest Energy | (9,500,000) | | | | 9,500,000 | (9,500,000) |
| B3 | To record loss on value of Asian Village | (2,750,000) | | | | 2,750,000 | (2,750,000) |
| IMPLIED ADJUSTMENTS: | | | | | | | |
| C1 | | | | | | | |
| C2 | | | | | | | |
| | | - | \$ - | \$ - | \$ - | - | - |
| | Total | <u>\$ (25,750,000)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 25,750,000</u> | <u>\$ (25,750,000)</u> |

Other Recommendations/Informational

Bank Reconciliations - During the audit, we noted that daily cash deposits and checks are recorded by one individual and this activity is reviewed by another individual. It was noted that monthly bank reconciliations were not being reviewed. We recommend that monthly bank reconciliations and accompanying journal entries are reviewed by an individual who does not prepare the reconciliations and ensure that the review process is evidenced with a signature.

Census Information Remitted to the Actuary - During the audit, we noted that census information is accumulated and remitted to the actuary but noted that this information is not reviewed on an overall or test basis. We noted that the provisional employees were included in the census data. We understand that provisional employees are not eligible for pension benefits. Although we understand the number of these employees to be minimal, this error could potentially impact the calculated future pension liability and the required contribution per the actuary. We recommend that the Retirement System implement a process by which an individual who does not accumulate the information review the data for accuracy prior to remitting to the actuary.

Contributions - During the audit, we noted that the employer contributions recorded in the ledger were improperly recorded by approximately \$16 million. We recommend that on a quarterly basis the ledger is reviewed and account balances are agreed to supporting sub-ledgers and calculations to ensure that the trial balance reflects accurate balances.

Bank of New York SAS 70 - During the audit, we noted that the Retirement System receives SAS 70 reports from the Bank of New York. We recommend that the SAS 70 be reviewed as these reports are based on the controls implemented by the bank related to recording and safe-keeping of investments in their custody.

Reconciliation of Benefit Payments - During the audit, we noted that the actual benefit payments made during the year are not reconciled to the general ledger. The risk is that there is potential for overpayment of benefits. We recommend that on a monthly basis the ledger is reviewed and benefit payments per the ledger are agreed to supporting sub-ledgers and calculations to ensure that the trial balance reflects accurate balances.

Non-publicly Traded Investments - The Retirement System invests in various types of non-publicly traded investments. By their nature, non-publicly traded investments oftentimes have a higher level of risk. The Retirement System uses the specific identification method of writing down non-publicly traded investments after they are known to be uncollectible. We suggest that the Retirement System consider recording an overall market value allowance as an estimate of non-publicly traded investments that may eventually be deemed uncollectible.

Related to the above comment, non-publicly traded investments are riskier by nature, and as such, are limited by state law. Some non-publicly traded investments will provide an outstanding return and others will not materialize as had been hoped and may need to ultimately be written off. As the Retirement System continues to evaluate various non-publicly traded investment opportunities, the Retirement System should consider tracking the performance of the consultants that are hired to perform due diligence as a means to evaluate the viability of future proposed investments.

We would like to thank the board for the opportunity to serve as auditors for the Retirement System. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Beth Bialy". The signature is written in a cursive style with a large, prominent initial "B".

Beth A. Bialy

A handwritten signature in black ink that reads "Wendy Trumbull". The signature is written in a cursive style with a large, prominent initial "W".

Wendy N. Trumbull