

**CITY OF DETROIT RETIREMENT SYSTEMS**

Financial Statements

June 30, 2001

(With Independent Auditors' Report Thereon)

# CITY OF DETROIT RETIREMENT SYSTEMS

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Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

## Independent Auditors' Report

To the Boards of Trustees  
The City of Detroit General Retirement System  
and  
The Policemen and Firemen Retirement System  
of the City of Detroit:

We have audited the statement of plan net assets and the related statement of changes in plan net assets of the City of Detroit General Retirement System and the Policemen and Firemen Retirement System of the City of Detroit (the Systems) as of and for the year ended June 30, 2001. These financial statements are the responsibility of the Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 net assets of the Systems as of June 30, 2001 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The schedules of employer contributions and funding progress on page 13 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit, and do not express an opinion on, such information. We have applied to the schedules of employer contributions and funding progress certain limited procedures prescribed by professional auditing standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.

**KPMG LLP**

December 5, 2001

**CITY OF DETROIT RETIREMENT SYSTEMS**

Statement of Plan Net Assets

June 30, 2001

(With comparative totals for June 30, 2000)

|  | <u>General Retirement System</u> |                      | <u>Policemen<br/>Retiremen</u> |
|--|----------------------------------|----------------------|--------------------------------|
|  | <u>2001</u>                      | <u>2000</u>          | <u>2001</u>                    |
| Assets:  |                                  |                      |                                |
| Cash   | \$ 2,819,153                     | 3,985,023            | 263,468                        |
| Investments, at fair value   | 2,704,046,265                    | 2,979,070,129        | 3,556,816,043                  |
| Accrued investment income  | 13,584,240                       | 14,997,714           | 20,246,327                     |
| Contributions receivable   | 4,323,523                        | 6,606,627            | 7,144,893                      |
| Receivables from investment sales  | 199,933,603                      | 185,973,204          | 147,254,932                    |
| Other accounts receivable  | <u>422,874</u>                   | <u>186,414</u>       | <u>417,977</u>                 |
| Total assets   | 2,925,129,658                    | 3,190,819,111        | 3,732,143,640                  |
| Liabilities:   |                                  |                      |                                |
| Payables for investment purchases  | 200,208,104                      | 194,591,475          | 161,085,677                    |
| Claims payable to retirants and beneficiaries  | 2,332,160                        | 2,967,497            | 976,575                        |
| Accrued pension benefits   | —                                | 12,191,550           | 81,791,707                     |
| Due to City of Detroit agencies  | 1,515,915                        | 1,691,915            | —                              |
| Other liabilities  | <u>30,067,397</u>                | <u>31,585,598</u>    | <u>4,664,461</u>               |
| Total liabilities  | <u>234,123,576</u>               | <u>243,028,035</u>   | <u>248,518,420</u>             |
| Net assets held in trust for pension benefits<br>(a schedule of funding progress for each plan is<br>presented on page 12) | <u>\$ 2,691,006,082</u>          | <u>2,947,791,076</u> | <u>3,483,625,220</u>           |

See accompanying notes to financial statements.

**CITY OF DETROIT RETIREMENT SYSTEMS**

Statement of Changes in Plan Net Assets

Year ended June 30, 2001

(With comparative totals for 2000)

|  | <b>General Retirement System</b>                   |   |  |   |  | <b>2001</b>   |
|--|--|---|--|---|--|---|
|  | <b>Annuity reserves</b>                            |   | <b>Market<br/>Stabilization<br/>Fund</b>     | <b>Pension reserves</b>                               |  |   |
|  | <b>Annuity<br/>Savings<br/>Fund</b>                | <b>Annuity<br/>Reserve<br/>Fund</b>           |  | <b>Pension<br/>Accumulation<br/>Fund</b>              | <b>Pension<br/>Reserve<br/>Fund</b>                  |   |
| <b>Additions:</b><br>Employer contributions<br>Employee contributions<br>Investment income (loss), net<br><br>Total additions (reductions)                     | \$ —<br>25,432,043<br>52,287,361<br><br>77,719,404 | —<br>—<br>2,082,622<br><br>2,082,622          | —<br>—<br>(266,498,319)<br><br>(266,498,319) | 68,139,535<br>46,618<br>(8,928,591)<br><br>59,257,562 | —<br>—<br>92,978,395<br><br>92,978,395               | 68,139,535<br>25,471,661<br>(128,077,902)<br><br>(34,466,706) |
| <b>Deductions:</b><br>Pension and annuity benefits<br>General and administrative expenses<br>Refunds<br><br>Total deductions<br><br>Net increase (decrease)    | —<br>—<br>82,154,215<br><br>82,154,215             | 3,195,253<br>—<br>—<br><br>3,195,253          | —<br>—<br>—<br><br>—                         | —<br>3,149,697<br>1,016,843<br><br>4,166,540          | 132,808,650<br>—<br>—<br><br>132,808,650             | 136,000,303<br>3,149,697<br>83,171<br><br>222,321,171         |
| Transfers, net<br><br>Net assets held in trust for pension benefits,<br>beginning of year<br><br>Net assets held in trust for pension benefits,<br>end of year | (719,972)<br><br>725,956,046<br><br>\$ 720,801,263 | (378,294)<br><br>25,576,021<br><br>24,085,096 | —<br><br>45,358,013<br><br>(221,140,306)     | (24,582,089)<br><br>912,057,915<br><br>942,566,848    | 25,680,355<br><br>1,238,843,081<br><br>1,224,693,181 | (256,787,721)<br><br>2,947,791<br><br>2,691,003               |

**CITY OF DETROIT RETIREMENT SYSTEMS**

Statement of Changes in Plan Net Assets

Year ended June 30, 2001

(With comparative totals for 2000)

|  | <b>Policemen and Firemen Retirement System</b> |                             |                                  |                               |                                  |                             | <b>200</b>       |
|--|--|-----------------------------|----------------------------------|-------------------------------|----------------------------------|-----------------------------|------------------|
|  | <b>Annuity reserves</b>                        |                             |                                  | <b>Pension reserves</b>       |                                  |                             |                  |
|  | <b>Annuity Savings Fund</b>                    | <b>Annuity Reserve Fund</b> | <b>Market Stabilization Fund</b> | <b>Survivor Benefits Fund</b> | <b>Pension Accumulation Fund</b> | <b>Pension Reserve Fund</b> |                  |
| Additions:   |  |                             |                                  |                               |                                  |                             |                  |
| Employer contributions   | \$ —   | —                           | —                                | —                             | 14,443,382                       | —                           | 14,443,382       |
| Employee contributions   | 10,239,667                                     | —                           | —                                | —                             | 61,114                           | —                           | 10,300,781       |
| Investment income (loss), net                                    | 36,934,638                                     | 1,462,010                   | (628,110,581)                    | 2,314,161                     | (31,259,591)                     | 153,993,609                 | (464,666)        |
| <b>Total additions (reductions)</b>                              | <b>47,174,305</b>                              | <b>1,462,010</b>            | <b>(628,110,581)</b>             | <b>2,314,161</b>              | <b>(16,755,095)</b>              | <b>153,993,609</b>          | <b>(439,922)</b> |
| Deductions:  |  |                             |                                  |                               |                                  |                             |                  |
| Pension and annuity benefits                                     | —  | 110,390,525                 | —                                | 3,404,524                     | —                                | 174,790,706                 | 288,580          |
| General and administrative expenses                              | —  | —                           | —                                | —                             | 3,147,697                        | —                           | 3,147,697        |
| Refunds  | 17,616,973                                     | 149,332                     | —                                | —                             | —                                | —                           | 17,766,305       |
| <b>Total deductions</b>  | <b>17,616,973</b>                              | <b>110,539,857</b>          | <b>—</b>                         | <b>3,404,524</b>              | <b>3,147,697</b>                 | <b>174,790,706</b>          | <b>309,493</b>   |
| <b>Net increase (decrease)</b>                                   | <b>29,557,332</b>                              | <b>(109,077,847)</b>        | <b>(628,110,581)</b>             | <b>(1,090,363)</b>            | <b>(19,902,792)</b>              | <b>(20,797,097)</b>         | <b>(749,422)</b> |
| Transfers, net   | 108,743,236                                    | 97,995,456                  | —                                | —                             | (407,306,799)                    | 200,568,107                 |                  |
| Net assets held in trust for pension benefits, beginning of year | 225,914,827                                    | 25,057,750                  | 211,715,097                      | 31,370,989                    | 1,744,044,936                    | 1,994,942,969               | 4,233,041        |
| Net assets held in trust for pension benefits, end of year       | \$ <u>364,215,395</u>                          | <u>13,975,359</u>           | <u>(416,395,484)</u>             | <u>30,280,626</u>             | <u>1,316,835,345</u>             | <u>2,174,713,979</u>        | <u>3,483,620</u> |

See accompanying notes to financial statements.

## CITY OF DETROIT RETIREMENT SYSTEMS

Notes to the Financial Statements

June 30, 2001

### (A) Plan Description

The City of Detroit, a single employer, Retirement Systems consist of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each System is composed of a defined benefit plan and a defined contribution plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

These Systems are administered in accordance with the City of Detroit (City) Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each System's board of trustees. The Systems' investment policies are governed in accordance with the State of Michigan Public Act 314 of 1965, as amended.

### (B) Summary of Significant Accounting Policies

#### *Basis of Accounting*

The Systems' financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan. The Systems' report in accordance with GASB Statement No. 25,

#### *Method Used to Value Investments*

System 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 last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value.

#### *Funding Policy – 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. The current rate is 13.37% of active annual payroll for the GRS and 27.25% of active annual payroll for the PFRS. Contributions from employer for the year ended June 30, 2001 amounted to \$68,139,535 and \$14,443,382 for the GRS and the PFRS, respectively.

Employee contributions for annuity savings are as follows:

- **General Retirement System:** 3% of the first \$68,400 of annual compensation and 5% of any excess over \$68,400. Employees may also elect to contribute 3%, 5%, or 7%. Contributions are voluntary for all union and non-union employees.
- **Policemen and Firemen Retirement System:** Mandatory contributions are 5% of base compensation until eligibility for retirement is reached.

## CITY OF DETROIT RETIREMENT SYSTEMS

### Notes to the Financial Statements

June 30, 2001

Contributions from employees during the year ended June 30, 2001 amounted to \$25,478,661 and \$10,300,781 for the GRS and the PFRS, respectively.

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

#### ***Benefits***

GRS members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an escalator clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after 25 years of service with full benefits and a yearly cost-of-living adjustment of 2.25%.

Members of the GRS who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System.

Members of the PFRS who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension. For those members of the PFRS who were hired after January 1, 1969, pension benefits are increased annually by 2.25% of the original pension. Police officers and firefighters hired before January 1, 1969 may elect, at retirement, increases based upon pay increases of active members or annual increases of 2.25% of the original pension.

Employee contributions to both Systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw their accumulated annuity contributions plus interest in a lump sum or to receive monthly annuity payments. Employees in both Systems may withdraw their annuity balance if they have accumulated 25 years of service credit.

#### ***Class of Employees***

The GRS covers all eligible employees other than police officers and firefighters, who are covered by the PFRS.



**CITY OF DETROIT RETIREMENT SYSTEMS**

Notes to the Financial Statements

June 30, 2001

The Systems' membership consisted of the following at June 30, 2000, the date of the latest actuarial valuation:

|  | <u>Defined benefit plans</u> |              | <u>Defined contribution plans</u> |              |
|--|------------------------------|--------------|-----------------------------------|--------------|
|  | <u>GRS</u>                   | <u>PFRS</u>  | <u>GRS</u>                        | <u>PFRS</u>  |
| Retirees and beneficiaries receiving benefits                      | 14,480                       | 8,079        | 1,893                             | 1,757        |
| Terminated plan members entitled to but not yet receiving benefits | 1,472                        | 40           | 396                               | 9            |
| Active plan members  | <u>12,147</u>                | <u>5,481</u> | <u>11,680</u>                     | <u>5,224</u> |

The Systems' membership consisted of the following at June 30, 1999 and are included for informational purposes only:

|  | <u>Defined benefit plans</u> |              | <u>Defined contribution plans</u> |              |
|--|------------------------------|--------------|-----------------------------------|--------------|
|  | <u>GRS</u>                   | <u>PFRS</u>  | <u>GRS</u>                        | <u>PFRS</u>  |
| Retirees and beneficiaries receiving benefits                      | 11,537                       | 7,883        | 2,060                             | 1,880        |
| Terminated plan members entitled to but not yet receiving benefits | 1,351                        | 45           | 574                               | 19           |
| Active plan members  | <u>11,987</u>                | <u>5,329</u> | <u>11,286</u>                     | <u>4,646</u> |

**(C) Cash and Investments**

Cash balances for the Systems are held in financial institutions insured as members of FDIC in the Systems' name. As of June 30, 2001, the carrying amounts of \$2,819,153 for the GRS and \$263,468 for the PFRS were equal to bank balances. Of the bank balance, \$136,844 for the GRS and \$200,000 for the PFRS were covered by federal depository insurance. The remaining balances for both GRS and PFRS are uncollateralized.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 3, the Systems' investments are categorized to give an indication of the level of custodial risk assumed by the Systems at June 30, 2001. Category 2 includes investments which are uninsured, unregistered, and held by a trust department or agent in the Systems' name.

The Systems have adopted an official investment policy, which is in accordance with state statute. Authorized investments include U.S. Government obligations, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, bankers' acceptances, repurchase agreements, mutual funds of certain investment quality, secured lease obligations, real and personal property, small business and venture capital firms, preferred stock, common stock, and other investments not excluded by state statute, limited as to portfolio share.

**CITY OF DETROIT RETIREMENT SYSTEMS**

Notes to the Financial Statements

June 30, 2001

Following is a description of the investments by type and category:

| <b>Investment</b>               |                         | <b><u>Category</u></b> |
|---------------------------------|-------------------------|------------------------|
| General Retirement System:      |                         |                        |
| Short-term investments          | \$ 157,634,951          | 2                      |
| Bonds and stocks                | 1,737,001,934           | 2                      |
| Mortgage-backed securities      | 83,942,510              | 2                      |
| Mortgage and construction loans | 138,194,331             | N/A                    |
| Equity interest in real estate  | 87,236,905              | N/A                    |
| Securities lending              | 191,090,775             | N/A                    |
| Pooled investments              | 117,867,092             | N/A                    |
| Private placements              | <u>191,077,767</u>      | 2                      |
| Total                           | \$ <u>2,704,046,265</u> |                        |
| Policemen and Firemen System:   |                         |                        |
| Short-term investments          | \$ 159,402,831          | 2                      |
| Bonds and stocks                | 2,289,139,608           | 2                      |
| Mortgage-backed securities      | 175,888,125             | 2                      |
| Mortgage and construction loans | 81,469,075              | N/A                    |
| Equity interest in real estate  | 75,203,433              | N/A                    |
| Securities lending              | 409,745,112             | N/A                    |
| Pooled investments              | 343,431,003             | N/A                    |
| Private placements              | <u>22,536,856</u>       | 2                      |
| Total                           | \$ <u>3,556,816,043</u> |                        |

Investment loss, net presented in the Statement of Changes in Plan Net Assets, consist of interest income, dividend income, net depreciation and investment expenses. GRS and PFRS were unable to breakdown each component by reserve fund as required in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* however the Systems were able to present components in total:

|                      | <b><u>PFRS</u></b>      | <b><u>GRS</u></b>       |
|----------------------|-------------------------|-------------------------|
| Investment loss, net |                         |                         |
| Dividends income     | \$ 31,276,803           | \$ 20,521,797           |
| Interest income      | 109,352,491             | 60,256,705              |
| Net depreciation     | (591,172,213)           | (204,207,246)           |
| Investment expenses  | <u>(14,122,835)</u>     | <u>(4,649,788)</u>      |
| Total                | \$ <u>(464,665,754)</u> | \$ <u>(128,078,532)</u> |

## CITY OF DETROIT RETIREMENT SYSTEMS

Notes to the Financial Statements

June 30, 2001

### (D) Securities Lending

Under the provisions of Securities Lending Authorization Agreements, the Systems lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Systems' custodial banks manage the securities lending program and receive cash, securities, and irrevocable bank letters of credit as collateral. The custodial banks do 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 100% of the market value of the loaned securities.

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial banks made on its behalf, and the custodial banks indemnified the Systems by agreeing to purchase replacement securities or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial banks.

The Systems and the borrowers maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested in two separate collective investment pools. The average duration of both investment pools as of June 30, 2001 was 74 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2001, the Systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Systems as of June 30, 2001 were \$745,945,053 and \$600,835,887, respectively.

The GRS has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Cash collateral received with respect to such loans was invested, at the discretion of the board of trustees of the Systems, in Quality Funds for Short-term Investments, a pooled external vehicle (the Fund). The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service. Because the Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the Fund's investments at fair value for reporting purposes. The Fund is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the Fund), is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the GRS's position in the Fund is not the same as the value of the Fund shares. There was no involuntary participation in an external investment pool by the System for the fiscal year. Further, State Street assigned no income from one fund to another fund during the fiscal year.

**CITY OF DETROIT RETIREMENT SYSTEMS**

Notes to the Financial Statements

June 30, 2001

**(E) Net Assets Held in Trust for Employees' Pension Benefits**

Net assets held in trust for employees' pension benefits include legally required reserves and amounts designated by the plans' boards of trustees for specific purposes. Net assets as of June 30, 2001 consist of the following reserves and designations:

|  | <u>GRS</u>                     | <u>PFRS</u>                 |
|--|--------------------------------|-----------------------------|
| Annuity reserves:                                      |                                |                             |
| Annuity Savings Fund                                   | \$ 720,801,263                 | 364,215,395                 |
| Annuity Reserve Fund                                   | 24,085,096                     | 13,975,359                  |
|  | <u>744,886,359</u>             | <u>378,190,754</u>          |
| Pension reserves:                                      |                                |                             |
| Pension Accumulation Fund                              | 942,566,848                    | 1,316,835,345               |
| Pension Reserve Fund                                   | 1,224,693,181                  | 2,174,713,979               |
| Survivor Benefit Fund                                  | —                              | 30,280,626                  |
|  | <u>2,167,260,029</u>           | <u>3,521,829,950</u>        |
| Trustee-designated fund –<br>Market Stabilization Fund | <u>(221,140,306)</u>           | <u>(416,395,484)</u>        |
| Total net assets                                       | \$ <u><u>2,691,006,082</u></u> | <u><u>3,483,625,220</u></u> |

***Annuity Savings and Annuity Reserve Funds (Defined Contribution Plan)***

The Annuity Savings Fund represents cumulative contributions made by active employees plus credited interest. Amounts are subject to withdrawal upon termination of employment or retirement. Amounts transferred to the Annuity Reserve Fund represent cumulative contributions for retirees, disabled members, or surviving spouses who have elected monthly annuity benefits.

***Pension Accumulation and Pension Reserve Funds (Defined Benefit Plan)***

The Pension Accumulation Fund represents the fund in which City contributions are accumulated for the payment of pensions and other benefits. Employees who served in World War II, the Korean War, or Vietnam are eligible to contribute a one-time contribution to receive an additional pension payment upon retirement. Total employee contributions for the veterans were \$46,618 for GRS and \$61,114 for PFRS for the year ended June 30, 2001.

The Pension Reserve Fund represents funded pension benefits available for retired lives and is funded by actuarially determined transfers from the Pension Accumulation Fund.

## CITY OF DETROIT RETIREMENT SYSTEMS

Notes to the Financial Statements

June 30, 2001

### ***Survivor Benefits Reserve Fund***

The Survivor Benefits Reserve Fund represents accumulated employee and City contributions for certain survivor benefits from which the related benefits are paid.

### ***Market Stabilization Fund***

The Market Stabilization Fund represents amounts designated from plans' earnings for cushioning the effect of future market value adjustments for investment performance. The boards of trustees authorized the creation of this fund, and the reserve amounts are calculated using a three-year-average method.

### **(F) Transfers**

Reserves are subject to adjustments based upon actuarial valuation. Such adjustments are recorded each fiscal year.

### **(G) Accrued Pension Benefits**

On October 4, 2000, the City of Detroit, Michigan, the Detroit Police and Lieutenants and Sergeants Association (DPLSA), the Detroit Police Officers Association (DPOA), the Detroit Firefighters Association (DFFA), the Detroit Police Command Officers Association (DPCOA), and the Retired Detroit Police and Fire Association (RDPFA), collectively known as "the Union," entered into an agreement whereby \$92.4 million and \$98 million for the years ended June 30, 1998 and 2000, respectively, of net assets held in trust for pension benefits was distributed to the City (40%) and active (30%) and retired (30%) member police officers and firefighters.

The distribution resulted from the excess of the funding value of assets over actuarial accrued liabilities (full funding credit). The City's portion was credited toward the normal cost contribution for the fiscal years ending June 30, 2001 and 2002. Retired employees or beneficiaries received an additional pension check, referred to as the "13th Check." All active employees on the payroll July 1, 2000 and July 1, 2001 received a distribution in the form of contributions to each employee's defined contribution plan account, based upon the employee's pension service credit earned as of the June 30 of the applicable plan year. The payout was scheduled in three installments – June 2001, July 2001, and October 2001. The \$81,791,707 recorded as a liability on the accompanying statement of plan net assets, represents the accrued pension benefits earned but not paid until October 2001.

### **(H) Old Pension Plans**

Certain old pension plans, which include retired members only, are accounted for by the sponsor funds on a pay-as-you-go basis and are not reflected in the accompanying financial statements. The sponsor funds and contributions made for the year ended June 30, 2001 are \$50,083.

## CITY OF DETROIT RETIREMENT SYSTEMS

Notes to the Financial Statements

June 30, 2001

### (I) Other Postemployment Benefits

In addition to the pension benefits described above, the City provides postretirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2001 is 19,559. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosure of Information on Postretirement Benefits Other Than Pension Benefits by State and Local Government Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2001 are as follows:

| <b>Benefits</b> | <b>City<br/>cost</b>  | <b>Retiree<br/>cost</b> | <b>Total<br/>cost</b> |
|-----------------|-----------------------|-------------------------|-----------------------|
| Hospitalization | \$ 96,233,472         | 8,899,661               | 105,133,133           |
| Dental care     | 5,295,352             | —                       | 5,295,352             |
| Eye care        | 1,844,286             | —                       | 1,844,286             |
| Life insurance  | 135,078               | 26,951                  | 162,029               |
| Total           | \$ <u>103,508,188</u> | <u>8,926,612</u>        | <u>112,434,800</u>    |

### (J) Subsequent Events

On November 30, 2001, City Council approved a Defined Contribution Plan for employees of the GRS and an estimated date of enactment has not been determined. The City Council also approved several insignificant changes in actuarial methods and assumptions. Such changes were included in the June 30, 2000 actuarial report and were contingent upon approval.

**CITY OF DETROIT RETIREMENT SYSTEMS**

Required Supplementary Information

June 30, 2001

**A. Schedule of Employer Contributions  
(Dollar amounts in millions)**

| <b>General Retirement System</b> |  |                                   | <b>Policemen and Firemen Retirement System</b> |  |                                   |
|----------------------------------|--|-----------------------------------|--|--|-----------------------------------|
| <b>Year ended<br/>June 30</b>    | <b>Annual<br/>required<br/>contributions</b> | <b>Percentage<br/>contributed</b> | <b>Year ended<br/>June 30</b>                  | <b>Annual<br/>required<br/>contributions</b> | <b>Percentage<br/>contributed</b> |
| 1995                             | \$ 36.5                                      | 100%                              | 1995   | \$ 57.3                                      | 100%                              |
| 1996                             | 42.5   | 100                               | 1996   | 55.0   | 100                               |
| 1997                             | 54.7   | 100                               | 1997   | 54.5   | 100                               |
| 1998                             | 52.7   | 100                               | 1998   | 48.1   | 100                               |
| 1999                             | 55.6   | 100                               | 1999   | 15.7   | 100                               |
| 2000                             | 66.7   | 100                               | 2000   | 20.0   | 100                               |

**B. Schedule of Funding Progress  
(Dollar amounts in millions)**

| <b>Actuarial<br/>valuation<br/>date<br/>June 30</b> | <b>Actuarial<br/>value of<br/>assets</b> | <b>Actuarial<br/>accrued<br/>liability<br/>(AAL)</b> | <b>Funded<br/>ratio</b> | <b>Unfunded<br/>AAL<br/>(UAAL)</b> | <b>Covered<br/>payroll</b> | <b>UAAL as a<br/>percentage<br/>of payroll</b> |
|---|--|--|-------------------------|------------------------------------|----------------------------|--|
| <b>General Retirement System</b>                    |  |  |                         |                                    |                            |  |
| 1995  | \$ 2,043.4                               | 2,275.2  | 89.8                    | \$ 231.8                           | 327.6                      | 70.8%  |
| 1996  | 2,193.2                                  | 2,382.8  | 92.0                    | 189.6                              | 360.1                      | 52.7   |
| 1997  | 2,333.4                                  | 2,537.8  | 92.0                    | 204.4                              | 382.8                      | 53.4   |
| 1998  | 2,582.0                                  | 2,814.9  | 91.7                    | 232.9                              | 387.0                      | 60.2   |
| 1999(A)(B)  | 2,756.6                                  | 2,900.4  | 95.0                    | 143.8                              | 383.4                      | 37.5   |
| 2000(A)(B)  | 2,902.4                                  | 3,077.0  | 94.3                    | 174.6                              | 417.2                      | 41.9   |
| <b>Policemen and Firemen Retirement System</b>      |  |  |                         |                                    |                            |  |
| 1995  | \$ 2,443.0                               | 2,574.2  | 94.9                    | \$ 131.2                           | 209.7                      | 62.6%  |
| 1996(A)   | 2,628.6                                  | 2,633.4  | 99.8                    | 4.8                                | 212.7                      | 2.3  |
| 1997  | 2,944.2                                  | 2,806.6  | 104.9                   | (137.6)                            | 217.6                      | —  |
| 1998  | 3,325.9                                  | 2,976.8  | 111.7                   | (349.1)                            | 217.5                      | —  |
| 1999(A)(B)  | 3,668.4                                  | 3,218.7  | 114.0                   | (449.7)                            | 216.0                      | —  |
| 2000(A)(B)  | 3,964.2                                  | 3,342.1  | 118.6                   | (622.1)                            | 237.7                      | —  |

(A) After changes in actuarial assumptions.

(B) Plan amended.

## CITY OF DETROIT RETIREMENT SYSTEMS

Required Supplementary Information

June 30, 2001

### Significant Actuarial Assumptions

Significant actuarial assumptions used in preparing the accompanying Systems' required supplementary information for the year ended June 30, 2001 follow:

|                               | <b>General<br/>Retirement<br/>System</b> | <b>Policemen and<br/>Firemen<br/>Retirement<br/>System</b> |
|-------------------------------|--|--|
| Valuation date                | June 30, 2000                            | June 30, 2000  |
| Actuarial cost method         | Entry age                                | Entry age  |
| Amortization method           | Level percent closed                     | Level percent closed                                       |
| Remaining amortization period | 21 years                                 | 17 years   |
| Asset valuation method        | 3-year smoothed market                   | 3-year smoothed market                                     |
| Actuarial assumptions:        |  |  |
| Investment rate of return     | 7.9%                                     | 7.8%   |
| Projected salary increases    | 4.0%-10.0%                               | 5.5%-9.0%  |
| Includes inflation at         | 4.0%                                     | 4.8%   |
| Cost-of-living adjustments    | 2.25%                                    | 2.25%  |

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.