# Police and Fire Retirement System for the City of Detroit

## Financial Report
## with Supplemental Information
## June 30, 2006

**Reissued as of August 17, 2007**

# Police and Fire Retirement System for the City of Detroit

## Contents

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# Independent Auditor's Report

The Board of Trustees
Police and Fire Retirement System
for the City of Detroit

We have audited the accompanying statement of plan net assets of the Police and Fire Retirement System for the City of Detroit (the "System") as of June 30, 2006 and the related statement of changes in plan net assets by fund 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 2005 financial statements and, in our report dated October 13, 2005, 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 Police and Fire Retirement System for the City of Detroit as of June 30, 2006 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 a required part 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.

The Board of Trustees
Police and Fire Retirement System
for the City of Detroit

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Police and Fire Retirement System for 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 statement of changes in plan net assets by fund included in other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 17, 2007

## Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required 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 a section of required additional information that further explains and supports the information in the financial statements.

## Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2006 | June 30, 2005 |
| Total assets | $ 5,255,680,053 | $ 4,972,247,550 |
| Total liabilities | 1,220,295,825 | 1,143,292,792 |
| Assets held in trust for pension benefits | **$ 4,035,384,228** | **$ 3,828,954,758** |
| Net investment income | $ 381,669,729 | $ 259,868,904 |
| Contributions: | | |
| Employee | 10,007,531 | 10,430,854 |
| Employer | 57,807,332 | 51,602,596 |
| Employer - Pension obligation certificate proceeds | - | 630,829,189 |
| Total contributions | 67,814,863 | 692,862,639 |
| Benefits paid to members and retirees: | | |
| Retirees' pension and annuity benefits | 217,411,446 | 208,994,947 |
| Member annuity refunds and withdrawals | 22,244,391 | 33,557,578 |
| Total benefits paid | 239,655,837 | 242,552,525 |
| Benefits paid (in excess of) less than contributions | (171,840,974) | 450,310,114 |
| Ratio of benefits paid to contributions | 23.9 | 0.4 |
| Other expenses | 3,399,285 | 3,744,277 |
| Net increase in net assets | **$ 206,429,470** | **$ 706,434,741** |

## Overall Fund Structure and Objectives

The Police and Fire Retirement System for the City of Detroit (PFRS) is a defined benefit pension plan. PFRS exists to pay benefits to its active members, retirees, and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Both the employer (the City of Detroit) and active members contribute to the system.

PFRS is governed by an 11-member board of trustees (the "Board"). Six members of the Board are elected by the active membership to serve three-year terms. Five members serve ex-officio, these members being the mayor of the City of Detroit, the city treasurer, one representative from the Detroit City Council, the chief of police, and the fire commissioner.

PFRS is a relatively mature plan in that there are more retirants and beneficiaries receiving current benefits than active members. As of June 30, 2006, there were approximately 1.6 members receiving benefits for each active member contributing to the system.

PFRS paid out $240 million in benefits during the year. This represents approximately 6 percent of the assets of the system. Employer and employee contributions were $78 million or 2 percent of the assets of the system. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

## Asset Allocation

The board of trustees believes that the primary determinant of total fund investment performance over long periods of time is asset allocation. The PFRS asset allocation is built upon the foundation that the obligations of PFRS to pay the benefits promised to members are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the retirement 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 fund significant benefit payments every month.

The PFRS 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 asset allocation as of June 30, 2006:

| | |
|---|---|
| Equities | 56.0% |
| Fixed income | 27.5% |
| Real estate | 7.0% |
| Alternative investments | 8.0% |
| Cash reserves | 1.5% |

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. At no time during the year did the system fail to comply with the statutory limitations.

## Investment Results

Effective with the July 1, 2003 through June 30, 2004 fiscal year, PFRS acquired the capability to produce the investment results for the total fund composite on an AIMR-compliant, time-weighted, GIPS method basis. Investment results calculated for prior periods reflect dollar-weighted returns consistent with the methods utilized by the system's actuaries. Returns stated 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.

## Total Fund Composite

The PFRS total fund composite return for the year was 10.1 percent versus its actuarially assumed rate of 7.8 percent. This return ranked PFRS in the top half of all public funds as captured by the Trust Universe Comparison Service (TUCS). This was the third consecutive year of favorable investment experience versus the actuarially assumed rate following three consecutive years of unfavorable investment experience, during each of which PFRS underperformed its actuarially assumed rate.

Just before the end of the prior fiscal year, the City of Detroit elected to issue pension obligation certificates and contribute approximately $631 million to the system. The time required to effectively and prudently deploy this large cash infusion caused the system to maintain cash balances at levels much higher than normal throughout the year. Higher than normal cash balances coupled with the relatively low returns from cash and cash equivalents versus equities reduced the total fund composite return.

This year's total fund investment return is particularly encouraging, as is the outlook for future investment returns. Returns achieved in the public capital markets are highly dependent upon the health of the economy, both in the United States as well as in other countries. The Board believes that the outlook for continued global economic growth is good in both the short and long run.

The favorable investment experience during the current year is primarily attributable to the bias in the Board's asset allocation toward equity investments and real estate versus fixed income and cash. The following is a summary of the composite investment performance of the major asset classes.

| | |
|---|---|
| Equities | 16.2% |
| Fixed income | 1.7% |
| Real estate | 16.2% |
| Alternative investments | -2.9% |
| Cash | 5.7% |

## Equities

The equity assets consist of a combination of separately managed accounts distributed 70 percent to domestic stocks and 30 percent to international stocks. Within the equity composite, 43 percent of the assets are managed using passive strategies designed to replicate the portfolio represented by a widely recognized index such as the S&P 500 with the remaining 57 percent of the assets actively managed.

The overall equity composite return was 16.2 percent. This return ranked in the top quartile of the TUCS equity universe. Excess returns from actively managed accounts versus their underlying equity index benchmarks contributed significantly to the favorable equity composite return. The following is a summary of the performance of the equity composite and major components versus the broad stock market averages.

| | |
|---|---|
| PFRS Overall Equity Composite | 16.2% |
| | |
| PFRS Domestic Equity Composite | 11.0% |
| Russell 3000 Index | 9.6% |
| S&P 500 Index | 8.6% |
| | |
| PFRS International Equity Composite | 31.8% |
| MSCI World Index Ex USA | 26.9% |

## Fixed Income

All of the system's fixed income assets are actively managed. Fixed income managers have specific mandates within the bond market, these mandates being government bonds, corporate bonds, mortgages, convertible bonds, and high yield bonds.

The PFRS fixed income composite return was 1.7 percent. This return ranked in the top quartile of the TUCS fixed income universe. This compares very favorably with the broad fixed income market, as measured by the Lehman Aggregate index, which was down 0.8 percent.

Returns from investment grade fixed income assets were depressed by actions taken by the Federal Reserve Board to increase interest rates throughout the year. Excess returns from convertible bonds, mortgages and high yield bonds were the primary contributors to the favorable fixed income composite return. The following is a summary of the performance of the fixed income composite and major components versus the broad bond market averages.

| | |
|---|---|
| PFRS Overall Fixed Income Composite | 1.7% |
| Lehman Aggregate Index | -0.8% |
| | |
| PFRS Government Bond Composite | -1.3% |
| PFRS Corporate Bond Composite | 0.1% |
| PFRS Convertible Bond Composite | 9.3% |
| PFRS Mortgage Composite | 2.6% |
| PFRS High Yield Bond Composite | 6.0% |

## Real Estate

The PFRS 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 PFRS real estate portfolio is located in the United States.

Just over 80 percent of the portfolio consists of core property investments with the balance consisting of noncore investments. Core investments are those whose return is primarily derived from current income, whereas non-core investments are those whose return is 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.

The PFRS real estate composite return was 16.2 percent. This return ranked just below the median of the TUCS real estate universe. The broad domestic real estate market, as measured by the NCREIF Property Index, was up 18.7 percent. The PFRS real estate allocation is overweighted to core income producing properties and underweighted to non-core and opportunistic real estate investments, which detracted from returns relative to the NCREIF Property Index and the TUCS universe peer group.

## Alternative Investments

The PFRS alternative investment portfolio consists of both individually managed investments as well as investments in commingled funds. The portfolio is diversified by investment type and geographic location. Broad asset classes of alternative investments include private equity funds, direct investments of equity or debt in privately held companies, mezzanine debt, distressed debt, collateralized debt obligations, hedge funds, and venture capital. Energy sector investments represent the largest single economic sector allocation within the alternative investment portfolio. Essentially all of the PFRS alternative investment portfolio is located in the United States.

The PFRS alternative investment composite return was -2.9 percent versus its objective of the S&P 500 plus 5 percent per annum, which would be a return objective of 13.6 percent for the current year. Distressed debt, mezzanine debt, and private equity commingled funds exceeded their return objectives while non-performing individually managed investments dragged down the overall return from alternative investments.

## Cash

During the current year, PFRS paid out approximately $240 million in benefits to its members. This relatively high level of benefit payments necessitates maintaining relatively high cash balances at all times. Currently, the PFRS target asset allocation for cash is 1.5 percent of assets.

PFRS 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 idle cash balances which accumulate in the managed accounts. The money market fund provides daily liquidity and supports unlimited 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 PFRS cash composite return for the year was 5.7 percent. This return ranked in the top quartile of the TUCS cash management universe. This compares very favorably with three-month U.S. Treasury bills which returned 4.0 percent. Returns from cash on an absolute basis have been constrained since 2001 by Federal Reserve Board policy of maintaining relatively low levels of short-term interest rates.

# Police and Fire Retirement System for the City of Detroit

## Statement of Plan Net Assets
**June 30, 2006**
**(with comparative totals for June 30, 2005)**

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Cash (Note 3) | $ 8,095,553 | $ 9,724,398 |
| Investments - At fair value (Note 3) | 3,982,114,854 | 3,754,283,430 |
| Accrued investment income | 20,724,378 | 18,066,358 |
| Contributions receivable | 57,807,332 | 61,391,371 |
| Receivables from investment sales | 157,834,860 | 24,587,150 |
| Other accounts receivable | 615,471 | 603,557 |
| Capital assets (Note 1) | 417,749 | 460,054 |
| Cash and investments held as collateral for securities lending (Note 3) | 1,028,069,856 | 1,103,131,232 |
| Total assets | 5,255,680,053 | 4,972,247,550 |
| **Liabilities** | | |
| Payables for investment purchases | 181,756,605 | 27,903,499 |
| Claims payable to retirees and beneficiaries | 4,291,693 | 5,899,293 |
| Other liabilities | 6,177,671 | 6,358,768 |
| Amounts due broker under securities lending agreement (Note 3) | 1,028,069,856 | 1,103,131,232 |
| Total liabilities | 1,220,295,825 | 1,143,292,792 |
| **Net Assets Held in Trust for Pension Benefits** (a schedule of analysis of funding progress is presented in the required supplemental information) | **$ 4,035,384,228** | **$ 3,828,954,758** |

The Notes to Financial Statements are an Integral Part of this Statement.

# Police and Fire Retirement System for the City of Detroit

## Statement of Changes in Plan Net Assets
### Year Ended June 30, 2006
**(with comparative totals for the year ended June 30, 2005)**

| | 2006 | 2005 |
|---|---|---|
| **Additions** | | |
| Investment income: | | |
| Interest and dividend income | $ 149,038,677 | $ 128,343,833 |
| Net appreciation in fair value | 243,539,800 | 140,792,494 |
| Investment expense | (14,475,755) | (12,581,933) |
| Other income | 3,567,007 | 3,314,510 |
| Net investment income | 381,669,729 | 259,868,904 |
| Contributions: | | |
| Employee | 10,007,531 | 10,430,854 |
| Employer | 57,807,332 | 51,602,596 |
| Employer - Pension obligation certificate proceeds | - | 630,829,189 |
| Total additions | 449,484,592 | 952,731,543 |
| **Deductions** | | |
| Retirees' pension and annuity benefits | 217,411,446 | 208,994,947 |
| Member refunds and withdrawals | 22,244,391 | 33,557,578 |
| General and administrative expenses | 3,294,224 | 3,648,132 |
| Depreciation expense | 105,061 | 96,145 |
| Total deductions | 243,055,122 | 246,296,802 |
| **Net Increase in Net Assets Held in Trust for Pension Benefits** | 206,429,470 | 706,434,741 |
| **Net Assets Held in Trust for Pension Benefits -** Beginning of year | 3,828,954,758 | 3,122,520,017 |
| **Net Assets Held in Trust for Pension Benefits -** End of year | **$ 4,035,384,228** | **$ 3,828,954,758** |

The Notes to Financial Statements are an Integral Part of this Statement.

## Note 1 - Summary of Significant Accounting Policies

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

The Police and Fire Retirement System is a separate and 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 a fiduciary obligation and legal liability for any violations of fiduciary duties as independent trustees.

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

**Basis of Accounting** - The Police and Fire Retirement System for 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 are reported at estimated fair 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.

**Opinion Date** – The financial statement of the system for the year ended June 30, 2006 was originally issued on October 11, 2006. During July 2007, the Pension Board passed a resolution adjusting the dollar amount of the employer contribution for the year. As a result, the statements have been reissued as of August, 17, 2007.

## Note 2 – Plan Description and Contribution Information

At June 30, 2006, the membership of the defined benefit plans and the defined contribution plans consisted of the following:

| | Defined Benefit Plan | Defined Contribution Plan |
|---|---|---|
| Retirees and beneficiaries receiving pension benefits | 8,575 | 1,236 |
| Terminated plan members entitled to but not yet receiving benefits | 24 | 27 |
| Active plan members | 4,342 | 4,050 |

**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 unit.

**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 calculated by the actuary for 2005-2006 was 40.69 percent of active annual payroll, with 12.81 percent being funded from the use of pension obligation certificate proceeds received during the prior year and 27.88 percent being funded by City contributions. The actual City contribution to be paid, which was determined by Pension Board action, is 24.49 percent of payroll. 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.

Employees are required to make contributions toward annuity savings in the amount of 5 percent of base compensation until eligibility for retirement is reached. Contributions from employees during the year ended June 30, 2006 totaled $10,007,531.

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.

## 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.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had $8,031,837 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 year end, the average maturities of investments are as follows:

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. government | $ 149,684,758 | $ 21,098,831 | $ 71,456,146 | $ 42,993,941 | $ 14,135,840 |
| Mortgage backed | 123,536,072 | - | 167,071 | 5,620,096 | 117,748,905 |
| Collateralized mortgage obligations | 39,483,969 | - | - | - | 39,483,969 |
| Corporate | 593,862,341 | 36,336,776 | 238,078,003 | 226,938,973 | 92,508,589 |
| Yankee bonds | 8,387,197 | - | 4,529,609 | 2,056,152 | 1,801,436 |
| Non-U.S. fixed income | 31,355,818 | - | 9,564,188 | 18,301,830 | 3,489,800 |
| Convertible bonds | 18,533,250 | - | 1,491,149 | 315,990 | 16,726,111 |
| Treasury bills | 133,060 | 133,060 | - | - | - |
| Mortgages | 12,222,336 | - | 3,000,000 | - | 9,222,336 |
| Total | $ 977,198,801 | $ 57,568,667 | $ 328,286,166 | $ 296,226,982 | $ 295,116,986 |

## Note 3 - Deposits and Investments (Continued)

### 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 year end, the credit quality ratings of debt securities (other than 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 | $130,767 | $ - | $ - | $ - | $ - |
| Mortgage backed | 8,943 | - | - | - | - |
| Collateralized mortgage obligations | 9,989 | - | - | - | - |
| Corporate | 11,168 | 31,016 | 128,161 | 129,670 | 73,782 |
| Yankee bonds | - | - | - | 5,903 | 901 |
| Non-U.S. fixed income | - | - | 11,938 | 2,651 | 5,498 |
| Convertible bonds | 693 | - | 1,787 | 4,116 | 4,197 |
| Total | $ 161,560 | $ 31,016 | $ 141,886 | $ 142,340 | $ 84,378 |

| Investment Type and Fair Value ($000) | B | CCC & Below | A-1 | NR |
|---|---|---|---|---|
| Corporate | $ 169,702 | $ 29,184 | $ - | $ 37,171 |
| Mortgage backed | - | - | - | 114,593 |
| Collateralized mortgage obligations | - | - | - | 29,495 |
| Yankee bonds | 1,465 | - | - | 119 |
| Non-U.S. fixed income | 9,497 | 1,110 | - | 662 |
| Convertible bonds | 2,989 | 541 | - | 1,131 |
| Commercial paper | - | - | 696 | - |
| Mortgages | - | - | - | 12,222 |
| Total | $ 183,653 | $ 30,835 | $ 696 | $ 195,393 |

## 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 pension system does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk (in $000):

| | Equity | Forward Contracts Unrealized Gain (Loss) | Cash |
|---|---|---|---|
| Australian dollar | $ 10,730 | $ 5,108 | $ 202 |
| British pound sterling | 96,504 | (19,680) | 832 |
| Canadian dollar | 2,627 | 15,612 | 29 |
| Danish krone | 1,493 | - | 20 |
| Euro currency | 171,848 | 968 | 2,284 |
| Hong Kong dollar | 6,091 | (2,052) | 52 |
| Japanese yen | 118,226 | (20,890) | 5,805 |
| Malaysian ringgit | 561 | - | - |
| New Taiwan dollar | 534 | - | - |
| New Zealand dollar | 3,614 | - | 1 |
| Norwegian krone | 9,148 | - | 59 |
| Renminbi yuan | 509 | - | - |
| Singapore dollar | 3,148 | - | 8 |
| South Korean won | 2,141 | - | (107) |
| Swedish krona | 17,977 | 553 | (449) |
| Swiss franc | 35,912 | - | 646 |
| Total | $ 481,063 | $ (20,381) | $ 9,382 |

The following is a description of the investments by type:

| Investment | Amount |
|---|---|
| Short-term investments | $ 85,549,655 |
| Stocks | 2,261,405,932 |
| Bonds | 796,295,727 |
| Mortgage-backed securities | 153,297,504 |
| Mortgage and construction loans | 132,867,205 |
| Equity interest in real estate | 107,260,311 |
| Real estate investment trusts held by custodian | 60,374,430 |
| Pooled investments | 339,081,044 |
| Private placements | 45,983,046 |
| Total | $ 3,982,114,854 |

## 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 100 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 together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2006 and 2005 was 30 and 27 days, respectively. 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, 2006 and 2005, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as of June 30, 2006 was $ 1,028,069,856 and $1,006,273,998, respectively.

## 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, 2006, the System's reserves have been fully funded as follows:

| | |
|---|---|
| Reserved for employee contributions | $ 269,912,502 |
| Reserved for retired employees | 2,655,336,469 |

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), which 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 Employees' Retirement System and approximately $630,000,000 was deposited into the Police and Fire Retirement System for 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.

# Required Supplemental Information

### 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) |
|---|---|---|---|---|---|---|
| 06/30/00 | $ 3,964,231,470 | $ 3,342,123,550 | $ (622,107,920) | 118.6 | $ 237,741,560 | - |
| 06/30/01 | 3,900,020,703 | 3,463,248,393 | (436,772,310) | 112.6 | 253,297,027 | - |
| 06/30/02 | 3,635,106,581 | 3,523,446,635 | (111,659,946) | 103.2 | 248,663,133 | - |
| 06/30/03 | 3,205,516,657 | 3,721,593,210 | 516,076,553 | 86.1 | 248,681,461 | 207.5 |
| 06/30/04 | 3,074,516,589 | 3,857,493,282 | 782,976,693 | 79.7 | 258,699,581 | 302.7 |
| 06/30/05 | 3,757,894,011 | 3,780,447,414 | 22,553,403 | 99.4 | 250,491,872 | 9.0 |

## Required Supplemental Information
## Schedule of Employer Contributions

| Year Ended June 30 | Annual Required Contribution | | Percentage Contributed |
|---|---|---|---|
| 2000 | $ 19,972,058 | | 100 |
| 2001 | 14,443,382 | | 100 |
| 2002 | 8,449,645 | | 100 |
| 2003 | 66,843,029 | | 100 |
| 2004 | 69,475,202 | | 100 |
| 2005 | 98,842,261 | * | 100 |
| 2006 | 87,666,683 | ** | 100 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation, is as follows:

| | |
|---|---|
| Valuation date | June 30, 2005 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent |
| Remaining amortization period | 30 years closed |
| Asset valuation method | Three-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.8% |
| Projected salary increases | 5.8%-10.8% |
| Includes inflation at | 4.8% |
| Cost of living adjustments | 2.25% |

* For the year ended June 30, 2005, $61,391,371 of the annual required contributions noted above was not received by the Police and Fire Retirement System for the City of Detroit. Of the total amount, $9,788,775 and $51,602,596 related to the years ended June 30, 2004 and 2005, respectively. In addition, of the total contribution, $47,237,665 was funded by transfers from the Accrued Liability Reserve Fund.

** For the year ended June 30, 2006, the actuary calculated a city contribution of $64,986,629. The Police and Fire Retirement System Board subsequently decreased the contribution to $57,807,332 through board action. The $57,807,332 contribution was not received by the Police and Fire Retirement System for the City of Detroit during the fiscal year ended June 30, 2006. In addition, of the total contribution of $87,666,683, $29,859,352 was funded by transfers from the Accrued Liability Reserve Fund.

# Other Supplemental Information

**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 board 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.

**Survivor Benefits Fund** - This fund is used to accumulate the PFRS employee and City contributions for certain survivor benefits from which the related benefits are paid.

**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.

| | Annuity Reserves | | |
|---|---|---|---|
| | Annuity Savings Fund | Annuity Reserve Fund | Market Stabilization Fund |
| **Additions** | | | |
| Net investment income (loss) | $ 3,351,581 | $ 865,344 | $ (15,957,929) |
| Contributions: | | | |
| Employee | 10,049,083 | - | - |
| Employer | - | - | - |
| Total additions - Net of investment loss | 13,400,664 | 865,344 | (15,957,929) |
| **Deductions** | | | |
| Retirees' pension and annuity benefits | - | 876,295 | - |
| General and administrative expenses | - | - | - |
| Depreciation expense | - | - | - |
| Member refunds and withdrawals | 22,244,391 | - | - |
| Total deductions | 22,244,391 | 876,295 | - |
| **Net Additions (Deductions)** - Before transfers | (8,843,727) | (10,951) | (15,957,929) |
| **Transfers** - Net | (610,711) | (1,598,599) | - |
| **Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits** | (9,454,438) | (1,609,550) | (15,957,929) |
| **Net Assets Held in Trust for Pension Benefits** - Beginning of year | 279,366,940 | 11,229,307 | 71,067,142 |
| **Net Assets Held in Trust for Pension Benefits** - End of year | **$269,912,502** | **$ 9,619,757** | **$ 55,109,213** |

## Other Supplemental Information
## Statement of Changes in Plan Net Assets by Fund
## Year Ended June 30, 2006
**(with comparative totals for the year ended June 30, 2005)**

| | Pension Reserves | | | | |
|---|---|---|---|---|---|
| Accrued Liability Reserve Fund | Survivor Benefits Fund | Pension Accumulation Fund | Pension Reserve Fund | Total 2006 | Total 2005 |
| $ 47,362,327 | $ 1,730,077 | $ 163,612,518 | $ 180,705,811 | $ 381,669,729 | $ 259,868,904 |
| - | - | (41,552) | - | 10,007,531 | 10,430,854 |
| - | - | 57,807,332 | - | 57,807,332 | 682,431,785 |
| 47,362,327 | 1,730,077 | 221,378,298 | 180,705,811 | 449,484,592 | 952,731,543 |
| - | 4,063,624 | - | 212,471,527 | 217,411,446 | 208,994,947 |
| - | - | 3,294,224 | - | 3,294,224 | 3,648,132 |
| - | - | 105,061 | - | 105,061 | 96,145 |
| - | - | - | - | 22,244,391 | 33,557,578 |
| - | 4,063,624 | 3,399,285 | 212,471,527 | 243,055,122 | 246,296,802 |
| 47,362,327 | (2,333,547) | 217,979,013 | (31,765,716) | 206,429,470 | 706,434,741 |
| (29,859,352) | - | (113,194,355) | 145,263,017 | - | - |
| 17,502,975 | (2,333,547) | 104,784,658 | 113,497,301 | 206,429,470 | 706,434,741 |
| 587,536,385 | 23,158,385 | 324,377,188 | 2,532,219,411 | 3,828,954,758 | 3,122,520,017 |
| **$605,039,360** | **$ 20,824,838** | **$ 429,161,846** | **$ 2,645,716,712** | **$ 4,035,384,228** | **$ 3,828,954,758** |