Police and Fire Retirement System of the City of Detroit

Financial Report with Supplemental Information June 30, 2012

Police and Fire Retirement System of the City of Detroit

Contents

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

We have audited the accompanying basic financial statements of the Police and Fire Retirement System of the City of Detroit (the "System") as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Police and Fire Retirement System of the City of Detroit as of June 30, 2012 and 2011 and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1, the financial statements include investments valued at approximately $750,000,000 (25 percent of 2012 net assets) and approximately $910,000,000 (28 percent of 2011 net assets) at June 30, 2012 and 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods which may include information provided by investment managers, general partners, real estate advisors, and other means.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedules of funding progress, and employer contributions on pages 23-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Police and Fire Retirement System
of the City of Detroit

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System'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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

December 11, 2012

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 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, 2012	June 30, 2011	June 30, 2010
Total assets	$ 3,328,847,402	$ 3,717,411,629	$ 3,474,676,111
Total liabilities	354,385,769	337,320,028	456,726,876
Assets held in trust for pension benefits	**$ 2,974,461,633**	**$ 3,380,091,601**	**$ 3,017,949,235**
Net investment (loss) income	$ (138,340,706)	$ 614,834,869	$ 205,398,053
Contributions:			
Employee	9,538,384	10,453,905	10,764,969
Employer	49,760,229	81,642,112	32,808,485
Total contributions	59,298,613	92,096,017	43,573,454
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	278,104,785	263,432,423	251,671,929
Member annuity refunds and withdrawals	43,182,711	75,869,417	27,252,643
Total benefits paid	321,287,496	339,301,840	278,924,572
Benefits paid in excess of contributions	(261,988,883)	(247,205,823)	(235,351,118)
Ratio of benefits paid to contributions	5.4	3.7	6.4
Other expenses	5,300,379	5,486,680	4,258,318
Net (decrease) increase in net assets	**$ (405,629,968)**	**$ 362,142,366**	**$ (34,211,383)**

Fund Overview, Membership, Governance

The Police and Fire Retirement System of the City of Detroit (DPFRS or the "System") is a defined benefit pension plan and defined contribution plan. DPFRS 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.

DPFRS is a relatively mature plan in that there are more retirees and beneficiaries receiving current benefits than active members. As of June 30, 2012, membership of the System consisted of 3,181 active members, 9,323 members receiving benefits, and 195 terminated plan members entitled to, but not yet receiving, benefits.

DPFRS is currently governed by a 16-member board of trustees (the "Board"). Six members of the Board are elected by the active membership to serve three-year terms. Expirations of terms of elected trustees are staggered. Two retired members are elected by the retired membership and serve three-year terms. Eight members serve ex-officio, these members being the mayor of the City of Detroit (or designee), the city treasurer (or deputy treasurer), one representative from the Detroit City Council, the Corporation Counsel (or designee), the finance director (or designee), and the budget director (or designee) and two ex-officio trustees to be appointed by the Mayor. A 17th trustee may be selected to serve two years by the board of trustees who is not a participant of the plan and is not employed by the City.

Contributions to the System

Both the City of Detroit (employer) and active employees make regular contributions to the System. Basic pension and disability benefits are funded through employer and employee contributions plus investment earnings on those contributions.

The required employer contributions are determined by the System's actuaries using the entry age normal cost method. Assumptions used by the actuaries are subject to experience testing every five years.

Active employees contribute 5 percent of pay up to the date at which they are eligible for retirement. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. Employee annuity savings fund accounts are credited with investment earnings equal to the rate of return earned by the System subject to minimum earnings of 0 percent. An active employee may elect to withdraw his or her accumulated contributions plus investment earnings once he or she is eligible for retirement or upon completion of 25 years of service (DPOA and fire equivalents at 20 years).

Benefits Paid

The System exists to pay the benefits which its members have earned. DPFRS paid out $321 million in benefits during the year consisting of $278 million in benefits to retirees and beneficiaries plus $43 million in refunds of annuity savings fund balances. This represents approximately 11 percent of the net assets of the System as of June 30, 2012. Employer and employee contributions were $59 million or 2 percent of the assets of the System. The excess of benefits over contributions is 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 DPFRS asset allocation is built upon the foundation that the obligations of DPFRS 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.

DPFRS 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 Board's asset allocation as of June 30, 2012:

Equities	55.0%
Fixed income	28.0%
Real estate	8.0%
Alternative investments	8.0%
Cash	1.0%

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. The Board's asset allocation policies comply with these limitations.

Investment Results

Effective with the fiscal year commencing July 1, 2003, DPFRS acquired the capability to calculate investment results on an AIMR-compliant, time-weighted, GIPS method basis. This capability is utilized to calculate investment results at the total fund composite, asset class composite, managed account, sector, and individual security levels. Investment results calculated for prior periods at the total fund composite level reflected dollar-weighted returns consistent with the methods utilized by the System's actuaries. 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.

Total Fund Composite

The DPFRS total fund composite return for the year was -1.47 percent. The financial markets continued to display a distinct "risk-on/risk-off" pattern - characterized by a significant sell-off in August, a central-bank-catalyzed rally in the middle half of the fiscal year, and bookended by investor caution in the quarter ended June 30, 2012. The recovery in the financial markets as seen in the previous fiscal years is hampered by the doubt that a full recovery can be sustained, and a cloud of shadow as the European debt crisis continues to loom. As a result, the System's return dipped into negative territory after consecutive years of positive double digit gains. Total plan returns for the recent prior fiscal years ended June 30 are shown below:

2011	13.9
2010	16.9
2009	-14.8
2008	-6.3
2007	17.4

Contacting the Police and Fire Retirement System of the City of Detroit

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 employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's office.

Statement of Plan Net Assets

	June 30, 2012	June 30, 2011
Assets		
Cash and cash equivalents (Note 3)	$ 8,470,026	$ 5,329,752
Investments - At fair value (Note 3):		
Short-term investments	71,665,384	46,104,178
Stocks	1,369,740,351	1,670,515,990
Bonds	642,880,961	547,369,053
Mortgage-backed securities	79,033,706	70,342,795
Mortgage and construction loans	123,530,241	135,312,225
Equity interest in real estate	293,622,367	410,914,734
Real estate investment trusts held by custodian	41,072,094	29,288,746
Pooled investments	237,657,224	280,811,482
Private placements	84,185,928	83,389,021
Receivables:		
Accrued investment income	15,119,515	19,211,075
Contributions receivable	49,760,229	81,642,112
Receivables from investment sales	-	61,795,113
Other accounts receivable	1,065,750	1,073,046
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	26,316,561	34,631,679
Certificates of deposit	-	19,102,182
Repurchase agreements	184,026,107	73,484,020
Commercial paper	-	27,138,008
Money market	68,134	118,546
U.S. corporate floating rate	94,357,830	118,598,977
Agencies	5,000,497	-
Capital assets (Note 1)	1,274,497	1,238,895
Total assets	3,328,847,402	3,717,411,629
Liabilities		
Claims payable to retirees and beneficiaries	4,881,881	5,278,688
Payables for investment purchases	6,235,211	25,741,143
Amounts due broker under securities lending arrangements (Note 3)	336,556,836	300,075,662
Other liabilities	6,711,841	6,224,535
Total liabilities	354,385,769	337,320,028
Net Assets Held in Trust for Pension Benefits (a schedule of analysis of funding progress is presented in the required supplemental information)	**$2,974,461,633**	**$3,380,091,601**

Police and Fire Retirement System of the City of Detroit

Statement of Changes in Plan Net Assets

	Year Ended June 30, 2012	Year Ended June 30, 2011
Additions		
Investment income (loss):		
Interest and dividend income	$ 105,065,300	$ 113,698,495
Net (depreciation) appreciation in fair value	(228,705,779)	513,741,816
Less investment expense	(18,812,380)	(17,698,210)
Net investment (loss) income	(142,452,859)	609,742,101
Securities lending:		
Income	1,788,635	1,028,334
Net gain on collateral pool	214,542	3,296,302
Net securities lending	2,003,177	4,324,636
Contributions:		
Employer	49,760,229	81,642,112
Employee	9,538,384	10,453,905
Total contributions	59,298,613	92,096,017
Other income	2,108,976	768,132
Total additions - Net	(79,042,093)	706,930,886
Deductions		
Retirees' pension and annuity benefits	278,104,785	263,432,423
Member refunds and withdrawals	43,182,711	75,869,417
General and administrative expenses	5,188,593	5,388,530
Depreciation expense	111,786	98,150
Total deductions	326,587,875	344,788,520
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(405,629,968)	362,142,366
Net Assets Held in Trust for Pension Benefits - Beginning of year	3,380,091,601	3,017,949,235
Net Assets Held in Trust for Pension Benefits - End of year	**$ 2,974,461,633**	**$ 3,380,091,601**

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

Plan Sponsor Financial Condition - The City of Detroit (the plan sponsor) is experiencing significant financial difficulty. The City has entered into a Financial Stability Agreement with the State of Michigan which has put into place a financial advisory board, a chief financial officer, and a program management director to control the City's finances. In recent weeks, the City has reported impending cash flow concerns. Based on these facts, there is uncertainty regarding the City's ability to meet all of its future financial obligations, including its ability to continue making contributions to the System. The City is currently one year behind in making its annual required contribution. Subsequent to year end, the City has paid the contributions to the System in accordance with the mutually agreed-upon payment plan.

Basis of Accounting - The Police and Fire 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets

Methods Used to Value Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on periodic appraisals as well as the judgment of independent real estate advisors and management. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management. Approximately 25 percent of the System's assets are not publicly traded and therefore do not always have a readily determinable market value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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

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. Actual results could differ from those estimates.

Reclassifications - Comparative data for the prior year has been reclassified in order to be consistent with the current year's presentation.

Note 2 - Pension Description and Contribution Information

At June 30, 2012, 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	9,323	749
Terminated plan members entitled to but not yet receiving benefits	195	27
Active plan members	3,181	3,412

Note 2 - Pension Description and Contribution Information (Continued)

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 amounts, 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 the 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 2011-2012 and 2010-2011 was 23.02 and 35.22 percent, respectively, of active member annual payroll. This results in an actuarially required contribution of $49,760,229 and $81,642,112 for the two years, respectively.

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 totaled $9,538,384 and $10,453,905 for the years ended June 30, 2012 and 2011, 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.

Annual Pension Cost - The annual contribution for the year ended June 30, 2012 was $49,760,229, which was equal to the annual required contribution. This amount remains as a receivable at June 30, 2012. The annual contribution was determined as part of an actuarial valuation at June 30, 2010, using the entry age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 0.0 percent to 4.0 percent per year, due to inflation, (c) additional salary increases of 5.0 percent to 9.2 percent per year based on merit and/or longevity, and (d) cost-of-living adjustments for certain members of 2.25 percent per year. The 8 percent investment rate of return is determined using techniques that smooth the effects of short-term volatility over a seven-year period and include an inflation component of 4 percent. The unfunded actuarial liability is being amortized as a level dollar of payroll. The remaining amortization period is 30 years.

Related to the June 30, 2011 valuation, all assumptions were consistent with those used for the June 30, 2010 valuation.

Note 2 - Pension Description and Contribution Information (Continued)

Funded Status and Funding Progress - As of June 30, 2011, the most recent actuarial valuation date, the plan was 99.9 percent funded on an actuarial basis. The actuarial accrued liability for benefits was $3,808,642,533 and the actuarial value of assets was $3,804,759,868, resulting in underfunding of $3,882,665. The covered payroll (annual payroll for active employees covered by the plan) was $220,461,691.

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 assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

	Fiscal Years Ended June 30		
	2012	2011	2010
Annual pension cost (APC)	$ 49,760,229	$ 81,642,112	$ 57,808,485
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
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 investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority other than investments in REITs, real estate, and Michigan-based small businesses under Section 19(1), 19(2), and 20(a), respectively, being in excess of statutory limits by approximately .03 percentage points, .09 percentage points, and .55 percentage points, respectively.

Note 3 - Deposits and Investments (Continued)

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and 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 the 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:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. The System had no bank deposits (certificates of deposit, checking, and savings accounts) at June 30, 2012 or 2011 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, 2012, the average maturities of investments are as follows:

Investment Type	Fair Value (in thousands)	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government	$ 160,694	$ 3,571	$ 46,388	$ 8,543	$ 102,192
Government assets and mortgage backed	45,551	983	1,070	1,275	42,223
Treasuries	5,673	5,700	(3)	(36)	12
Corporate**	377,974	12,688	121,889	203,888	39,509
Private placement	127,175	5,325	46,021	66,449	9,380
Convertible bonds	27,922	2,707	14,744	2,132	8,339
State and local obligations	5,249	440	-	4,527	282
Convertible preferred stock	9,815	8,612	560	-	643
Construction loans	7,994	7,994	-	-	-
Mortgages	115,536	8,888	106,648	-	-
Total	$ 883,583	$ 56,908	$ 337,317	$ 286,778	$ 202,580

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

Note 3 - Deposits and Investments (Continued)

At June 30, 2011, the average maturities of investments are as follows:

Investment Type	Fair Value (in thousands)	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government	$ 55,887	$ 3,009	$ 34,229	$ 9,653	$ 8,996
Government assets and mortgage backed	70,623	-	300	-	70,323
Treasuries	6,658	6,658	-	-	-
Corporate**	419,265	19,005	154,341	151,155	76,729
Other fixed income	71,838	3,199	35,788	20,279	3,072
Convertible bonds	28,738	231	19,020	2,035	7,452
Pooled and mutual funds**	58,680	-	-	-	-
Commingled bonds**	1,024	-	-	-	-
State and local obligations	139	-	139	-	-
Convertible preferred stock	8,704	1,365	6,848	-	491
Construction loans	18,616	18,616	-	-	-
Mortgages	116,696	6,355	108,831	1,510	-
Total	$ 856,868	$ 58,438	$ 359,496	$ 184,632	$ 167,063

** Not all pooled, mutual funds, corporate, and commingled bonds 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, 2012, 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 (in Thousands)	AAA	AA	A	BBB	BB	B	CCC and Below	NR
Corporate fixed income	$ 31,343	$ 21,105	$ 99,595	$ 103,900	$ 36,783	$ 73,249	$ 12,588	$ 45,021
Government fixed income	-	156,768	1,627	2,128	164	358	-	2,044
Private placements	2,839	4,323	7,392	18,254	22,904	42,538	11,695	6,448
Convertible bonds	-	-	6,853	8,387	4,575	3,625	-	4,482
Mortgages	-	-	-	-	-	-	-	115,536
Convertible preferred stock	-	-	-	6,384	643	-	-	2,789
Preferred stock	-	-	-	-	933	-	-	2,184
Convertible private placements	1,056	-	486	2,794	777	1,120	-	4,501
Construction loans	-	-	-	-	-	-	-	7,994
Total	$ 35,238	$ 182,196	$ 115,953	$ 141,847	$ 66,779	$ 120,890	$ 24,283	$ 190,999

Note 3 - Deposits and Investments (Continued)

As of June 30, 2011, 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 (in Thousands)	AAA	AA	A	BBB	BB	B	CCC and Below	NR
Corporate fixed income	$ 36,827	$ 18,562	$ 70,259	$ 80,041	$ 38,624	$ 103,665	$ 19,480	$ 51,806
Government fixed income	-	535	-	860	-	-	-	-
Other fixed income	614	3,889	6,965	11,038	10,200	15,973	8,423	14,737
Convertible bonds	847	468	4,161	6,834	3,934	3,943	348	8,695
Pooled and mutual funds	1,966	-	-	-	-	-	-	56,714
Commingled bonds funds	-	-	-	-	-	-	-	1,024
State and local obligations	-	139	-	-	-	-	-	-
Convertible preferred stock	-	-	-	561	254	-	-	7,399
Construction loans	-	-	-	-	-	-	-	18,616
Mortgages	-	-	-	-	-	-	-	116,696
Government agencies	849	-	-	-	-	-	-	-
Total	$ 41,103	$ 23,593	$ 81,385	$ 99,334	$ 53,012	$ 123,581	$ 28,251	$ 275,687

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.

Note 3 - Deposits and Investments (Continued)

At June 30, 2012, the following securities are subject to foreign currency risk (in thousands):

	Equity	Forward Contracts (Including Payable/ Receivable)	Cash	Net Investment Receivable/ (Payable)
Australian dollar	$ 8,889	$ 1,183	$ 83	$ 13
Brazilian real	1,132	-	15	-
British pound sterling	76,732	(68)	80	380
Canadian dollar	19,512	3,767	123	(32)
Danish krone	4,995	(1,282)	74	(140)
Euro currency	88,532	(7,819)	6,771	(283)
Hong Kong dollar	11,107	(225)	38	12
Indian rupee	190	-	-	-
Indonesian rupiah	565	-	-	-
Israeli shekel	833	415	58	-
Japanese yen	47,319	(6,166)	703	(661)
Malaysian ringgit	348	(4)	-	4
Mexican nuevo peso	163	-	-	-
New Taiwan dollar	445	-	601	-
New Zealand dollar	23	-	6	-
Norwegian krone	4,213	633	69	-
New Turkish lira	-	-	2	-
Philippines peso	380	-	-	-
Russian new ruble	546	-	-	-
Singapore dollar	2,717	1,321	48	-
South African rand	838	-	2	-
South Korean won	577	-	-	-
Swedish krona	6,205	2,201	36	-
Swiss franc	24,240	(897)	486	92
Thai baht	594	-	-	-
Total	$ 301,095	$ (6,941)	$ 9,195	$ (615)

Note 3 - Deposits and Investments (Continued)

At June 30, 2011, the following securities are subject to foreign currency risk (in thousands):

	Equity	Forward Contracts (Including Payable/ Receivable)	Cash	Fixed Income
Australian dollar	$ 13,769	$ 41	$ 472	$ -
Brazilian real	1,267	-	-	-
British pound sterling	85,186	(4,216)	290	504
Canadian dollar	21,151	5,437	114	-
Danish krone	6,860	(390)	217	-
Euro currency	118,279	(6,085)	4,607	-
Hong Kong dollar	9,616	232	29	-
Indian rupee	687	-	-	-
Indonesian rupiah	406	-	-	-
Israeli shekel	1,205	615	24	-
Japanese yen	55,998	(3,354)	263	-
Malaysian ringgit	680	-	-	-
Mexican nuevo peso	215	-	-	-
New Taiwan dollar	1,235	-	-	-
New Turkish lira	-	-	2	-
New Zealand dollar	26	-	34	-
Norwegian krone	4,594	766	101	-
Philippines peso	185	-	-	-
Polish zloty	251	-	-	-
Renminbi yuan	379	-	-	-
Russian new ruble	878	-	-	-
Singapore dollar	4,314	31	394	-
South African rand	447	-	-	-
South Korean won	1,272	-	-	-
Swedish krona	4,365	1,702	22	-
Swiss franc	29,539	1,267	261	-
Thai baht	681	-	(62)	-
Total	$ 363,485	$ (3,954)	$ 6,768	$ 504

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.

As of June 30, 2012, the collateral provided was 100.01 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, 2012 and 2011 was 15 days 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, 2012 and 2011, the System had no credit risk exposure to borrowers. The collateral held (at cost) and the fair market value of underlying securities on loan for the System as of June 30, 2012 were $336,556,836 and $336,533,472, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2012; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. governments	$ 11,563,082
U.S. corporates	40,892,376
U.S. equities	266,012,477
Non-U.S. equities	18,065,537
Total	$ 336,533,472

Note 3 - Deposits and Investments (Continued)

The fair market value of the collateral pool related to securities lending at June 30, 2012 was $309,769,129. The investments were in agencies, asset-backed securities, notes (floating rate), money funds, and repurchase agreements. Approximately 93 percent of these securities had a duration of less than one year, 3 percent had a duration between 1-5 years, and 4 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2012 as rated by S&P are as follows:

Ratings	Amount
AAA	$ 19,028,459
AA	53,660,608
A	31,826,999
B	1,455,869
BBB	2,993,454
CCC	8,501,712
NR	192,302,028
Total	$ 309,769,129

The collateral held (at cost) and the fair market value of underlying securities on loan for the System as of June 30, 2011 were $300,075,661 and $294,780,690, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2011; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	$ 22,172,123
U.S. corporate fixed income	41,415,506
U.S. equities	220,536,215
Non-U.S. equities	10,656,846
Total	$ 294,780,690

The fair market value of collateral of the securities lending at June 30, 2011 was $273,073,412. The investments were in asset-backed securities, certificates of deposit, money markets, commercial paper, repurchase agreements, and U.S. corporate securities (floating rate). Approximately 53 percent of these securities had a duration of less than one year, 41 percent had a duration between 1-5 years, and 6 percent had a duration over 15 years.

Note 3 - Deposits and Investments (Continued)

The credit ratings of the securities lending collateral pool held at June 30, 2011 as rated by S&P are as follows:

Ratings		Amount
AAA		$ 32,547,440
AA		58,522,799
A		44,044,233
A-1		46,240,190
B		4,444,847
CCC		7,921,337
NR		79,352,566
	Total	$ 273,073,412

Note 4 - Reserves

The plan requires that employee contributions 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, 2012 and 2011, these reserves were less than the net assets of the Plan.

	2012	2011
Reserved for employee contributions	$ 198,566,556	$ 229,666,031
Reserved for retired employees	2,822,235,617	2,777,265,296

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 in both the General Employees' Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit. 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 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 based on a computation performed by the City of Detroit. The Accrued Liability Fund was credited with investment earnings commensurate with the overall earnings of the System.

Note 6 - Credit Enhancement Agreements and Funding Commitments

The System had credit enhancement agreements totaling $15,000,000 and $24,500,000 during 2012 and 2011, respectively. In exchange for the credit enhancement, the System receives fees from the companies to which the enhancement agreements have been given.

When the System enters into various investments, it may not completely fund the entire investment at the beginning. Rather, it enters into commitments to fund remaining capital amounts at certain points in time. At June 30, 2012 and 2011, the remaining capital funding commitment for the System is approximately $29 million and $86 million, respectively.

Note 7 - Subsequent Events

Subsequent to year end, the City amended several terms of its union contracts, including several related to pension provisions. Among other changes, the pension multiplier has been reduced to either 1.5 percent or 2.1 percent of average final compensation (AFC) for certain groups. In addition, the prior provision allowing 25 percent of unused sick leave to be included in AFC has been eliminated for certain groups. The changes will effectively lower the actuarial accrued liability and the resultant annual required contributions to the plan; however, the exact impact is pending an actuarial valuation as of June 30, 2012.

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 (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/06	$ 3,980,254,576	$ 3,808,952,741	$ (171,301,835)	104.5 %	$ 228,140,160	- %
6/30/07	4,307,183,758	3,896,814,229	(410,369,529)	110.5	230,173,964	-
6/30/08	4,316,263,291	4,071,053,752	(245,209,539)	106.0	232,812,606	-
6/30/09	3,945,205,453	4,221,291,045	276,085,592	93.5	231,795,528	119.1
6/30/10	3,853,279,381	3,767,364,201	(85,915,180)	102.3	228,829,999	-
6/30/11	3,804,759,868	3,808,642,533	3,882,665	99.9	220,461,691	1.8

Required Supplemental Information
Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	Transfer from Accrued Liability Reserve *
2007	$ 57,423,366	$ 57,423,366	100 %	$ 32,935,982
2008 **	58,934,636	41,113,934	70	34,074,039
2009 **	61,151,057	36,151,057	59	36,791,369
2010 **	57,808,485	32,808,485	57	41,403,282
2011	81,642,112	81,642,112	100	43,874,394
2012 ***	49,760,229	49,760,229	100	46,626,990

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation date, follows:

Valuation date	June 30, 2011
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	30 years
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases ****	5.0%-9.2%
**** Includes inflation at	0% for three years; 4% thereafter
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.

** For the years ended June 30, 2010, 2009, and 2008, the System gave various credits to the City that offset the required contributions.

*** As of June 30, 2012, these employer contributions have not been paid. However, per agreement, they will be paid within fiscal year 2013.

Other Supplemental Information

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 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 DPFRS 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 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	Accrued Liability Reserve Fund
Additions				
Net investment income (loss)	$ 8,952,694	$ 1,635,265	$ (243,908,986)	$ 51,739,431
Contributions:				
Employer	-	-	-	-
Employee	9,538,384	-	-	-
Total additions - Net	18,491,078	1,635,265	(243,908,986)	51,739,431
Deductions				
Retirees' pension and annuity benefits	-	-	-	-
Member refunds and withdrawals	43,182,711	-	-	-
Depreciation expense	-	-	-	-
General and administrative expenses	-	-	-	-
Total deductions	43,182,711	-	-	-
Net (Deductions) Additions - Before transfers	(24,691,633)	1,635,265	(243,908,986)	51,739,431
Transfers - Net	(6,407,842)	(15,821,550)	-	(46,626,990)
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(31,099,475)	(14,186,285)	(243,908,986)	5,112,441
Net Assets Held in Trust for Pension Benefits - Beginning of year	229,666,031	31,447,153	(452,419,133)	689,859,074
Net Assets Held in Trust for Pension Benefits - End of year	**$ 198,566,556**	**$ 17,260,868**	**$ (696,328,119)**	**$ 694,971,515**

Survivor Benefits Fund	Pension Reserves: Pension Accumulation Fund	Pension Reserves: Pension Reserve Fund	Total 2012	Total 2011
$ 202,296	$ (162,897,777)	$ 205,936,371	$ (138,340,706)	$ 614,834,869
-	49,760,229	-	49,760,229	81,642,112
-	-	-	9,538,384	10,453,905
202,296	(113,137,548)	205,936,371	(79,042,093)	706,930,886
-	-	278,104,785	278,104,785	263,432,423
-	-	-	43,182,711	75,869,417
-	111,786	-	111,786	98,150
-	5,188,593	-	5,188,593	5,388,530
-	5,300,379	278,104,785	326,587,875	344,788,520
202,296	(118,437,927)	(72,168,414)	(405,629,968)	362,142,366
-	(62,468,638)	131,325,020	-	-
202,296	(180,906,565)	59,156,606	(405,629,968)	362,142,366
5,394,571	130,325,762	2,745,818,143	3,380,091,601	3,017,949,235
$ 5,596,867	**$ (50,580,803)**	**$ 2,804,974,749**	**$ 2,974,461,633**	**$ 3,380,091,601**