Police and Fire Retirement System of the City of Detroit

Financial Report
with Supplemental Information
June 30, 2014

Police and Fire Retirement System of the City of Detroit

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying 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, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Police and Fire Retirement System of the City of Detroit as of June 30, 2014 and 2013 and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 1, the financial statements include investments valued at approximately $877,000,000 (27 percent of net position) at June 30, 2014 and at approximately $722,000,000 (24 percent of net position) at June 30, 2013, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers, general partners, real estate advisors, and other means. Our opinion has not been modified with respect to this matter.

Effective July 1, 2013, the System adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pensions*, as discussed in Note 1. Adopting this new accounting standard resulted in significant changes to the defined benefit related note disclosures and required supplemental information schedules. The City's bankruptcy, which was confirmed after year end, had a significant impact on the implementation of this new standard, which is disclosed in Note 9. Our opinion has not been modified with respect to this matter.

As described in Note 1 to the financial statements, the City of Detroit had previously filed for Chapter 9 bankruptcy which, as of June 30, 2013, called into question the collectibility of approximately $71,000,000 of contributions receivable that were due from the City of Detroit to the System. As a result of the risk associated with the City's inability to make the required payments, the System did not reflect the contribution revenue or associated receivable balances in the financial statements as of June 30, 2013. During fiscal year 2014, the City did not make the annual required contribution for the year ended June 30, 2014 or any late payments related to fiscal year 2013. Under the bankruptcy, the City will not be making payments directly attributable to these potential receivables and will instead be following a revised payment schedule. In addition, GASB Statement No. 67 does not allow for reporting revenue unless it is received or receivable pursuant to legal requirements. Therefore, as of June 30, 2014, no revenue or receivables have been reflected in the financial statements for the balance of 2013 and 2014 fiscal year required contributions. Our opinion has not been modified with respect to this matter.

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, 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, 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.

These financial statements exclude the schedule of funding progress required by GASB Statement No. 25 and accounting principles generally accepted in the United States of America in periods prior to June 30, 2014 and necessary for a complete comparative financial statement presentation. The disclosures in this schedule have become obsolete given the adoption of GASB Statement No. 67 in the current year. Such omitted information, although not a part of the basic financial statements, was previously required by the Governmental Accounting Standards Board, 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. Our opinion on the basic financial statements is not affected by this missing information.

Plante & Moran, PLLC

May 5, 2015

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 supplemental 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 two prior years:

	Fiscal Year Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Total assets	$ 3,381,312,013	$ 3,386,191,753	$ 3,328,847,402
Total liabilities	105,108,714	351,618,689	354,385,769
Fiduciary net position restricted for pensions	**$ 3,276,203,299**	**$ 3,034,573,064**	**$ 2,974,461,633**
Net investment income (loss)	$ 566,238,678	$ 381,460,272	$ (140,449,682)
Contributions:			
Employee	7,783,141	7,799,790	9,538,384
Employer	-	-	49,760,229
Total contributions	7,783,141	7,799,790	59,298,613
Other income	2,522,115	21,741,155	2,108,976
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	285,512,629	279,885,732	278,104,785
Member annuity refunds and withdrawals	38,027,844	35,652,101	43,182,711
Total benefits paid	323,540,473	315,537,833	321,287,496
Benefits paid in excess of contributions	(315,757,332)	(307,738,043)	(261,988,883)
Ratio of contributions to benefits paid	2.41%	2.47%	18.46%
Changes in estimate related to prior year contribution	-	29,026,800	-
Other expenses	11,373,226	6,325,153	5,300,379
Net increase (decrease) in fiduciary net position restricted for pensions	**$ 241,630,235**	**$ 60,111,431**	**$ (405,629,968)**

Fund Overview, Membership, and 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 which, as discussed in greater detail below, was frozen by the City of Detroit at the conclusion of the 2014 fiscal year. This legacy plan (the "Legacy Plan"), as it is now called, is being reported within these financial statements. A new hybrid plan (the "Hybrid Plan") was created by the City on July 1, 2014 and is not included within these statements.

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 and municipal plan sponsor for the System, the City of Detroit (the "City"), and active members have historically contributed to the System. Retirees, beneficiaries, and disabled members are those currently receiving benefits.

DPFRS is a relatively mature plan in that there are more retirees and beneficiaries receiving current benefits than active members. Membership of the System at June 30, 2013 consisted of 3,266 active members, with 8,476 inactive members receiving benefits and 235 terminated plan members entitled to, but not yet receiving, benefits. On June 30, 2014, the Emergency Manager of the City of Detroit issued Order #29, which froze the existing pension plan, the Legacy Plan. As of June 30, 2014, no new employees were allowed to participate in the Legacy Plan and benefit accruals for members with respect to service rendered prior to July 1, 2014 were frozen based on the member's years of service, average final compensation, and the pension multiplier formula as of the freeze date. Employees working after July 1, 2014 are now earning service credit in a new pension plan, the Hybrid Plan.

DPFRS is 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), 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. As is discussed in more detail below, an investment committee was established in December 2014 by DPFRS to meet governance requirements related to the consensual resolution of the City's bankruptcy case.

The City of Detroit's Chapter 9 Bankruptcy Case

In March 2013, after the City had endured years of financial difficulty, the Governor appointed an Emergency Manager (the "EM") for the City pursuant to Michigan Public Act 436 of 2012, which is a law that includes the ability for an emergency manager to file a bankruptcy proceeding. In anticipation of that possibility, DPFRS had assembled a restructuring team of professional legal, financial, actuarial, and other advisors to assist the System's on-staff professionals with meeting the challenges that could arise if the City filed for bankruptcy protection.

On July 18, 2013, the City filed a petition in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") seeking protection from its creditors under Chapter 9 of the United States Bankruptcy Code (the "Chapter 9 Case"). DPFRS objected to the City's request for Chapter 9 relief on the basis that article IX, section 24 of the Michigan Constitution of 1963 prevented the City from cutting accrued pension benefits, even in bankruptcy. On December 5, 2013, after a hearing lasting several weeks, the Bankruptcy Court entered an order determining that the City was eligible for Chapter 9 relief, and holding that accrued pension benefits could be cut in bankruptcy despite the language of the Michigan Constitution. DPFRS immediately filed an appeal with the United States Court of Appeals for the Sixth Circuit.

The Bankruptcy Court also ordered DPFRS and other creditors to mediate their disputes with the City, a process which gained momentum in early 2014. As a result of that mediation, a proposed settlement of pension claims of DPFRS members was included as part of the City's Fourth Amended Plan for the Adjustment of Debts of the City of Detroit, filed on May 5, 2014, along with an accompanying Fourth Amended Disclosure Statement (the "Pension Settlement"). The Pension Settlement proposed a compromise of pension claims reached with the City with funding support from the State of Michigan, the Detroit Institute of Arts, and certain charitable foundations. On May 12, 2014, the City issued ballots to all DPFRS members as claim holders in Class 10 under the City's classification system for its creditors, seeking their approval of the Pension Settlement.

For DPFRS, with respect to Chapter 9 Case benefit adjustments, the Pension Settlement, for which benefit levels were and are contingent on other factors, including receipt of outside contributions, provided for a 55 percent reduction in cost-of-living adjustments, or 'escalators' (COLAs) paid after June 30, 2014. The Pension Settlement also included the possibility of restoration of certain pension benefit cuts based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department as well as a new feature of the Legacy Plan allowing restoration depending on the System's funding level over time.

Contributions to the System

Historically, both the City and active employees have made regular contributions to the System. Basic pension and disability benefits have been funded through employer and employee contributions plus investment earnings on those contributions. The required employer contributions have been 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. Effective December 10, 2014, as part of the resolution of the Chapter 9 Case, the investment return assumption and discount rate used by the System's actuary for purposes of determining the System's assets and liabilities for funding purposes was fixed at 6.75 percent through the period ending June 30, 2023.

Prior to the filing of the Chapter 9 Case, the City stopped making payments related to unsecured funded debt and legacy liabilities, including payments to the System. When the City filed the Chapter 9 Case, obligations owed by the City became potentially subject to compromise in the bankruptcy process. The pension claims of DPFRS members were determined by the Bankruptcy Court to be included as unsecured obligations. The City's last employer contribution before the Chapter 9 Case was made on December 28, 2012. During fiscal year 2014, the City did not make any contributions to the System. In the Chapter 9 Case, DPFRS filed a claim against the City for $72.6 million as of July 18, 2013, reflecting past due employer contributions with interest for fiscal years 2012 and 2013. This amount did not reflect the full unfunded actuarial accrued liability of the System.

Going forward, the obligations for contributions to the System through 2023 are determined as fixed amounts pursuant to the provisions in the Plan of Adjustment. Pursuant to the Plan of Adjustment, the System is expected to receive contributions totaling $260.7 million, including $96.0 million from the State of Michigan and $164.7 million from the DIA and its foundation donors, over a 10-year period covering fiscal year 2015 through fiscal year 2023. The City will retain responsibility for the full funding obligations of the System after 2023, consistent with Michigan law.

Impact of City of Detroit Collective Bargaining and Bankruptcy Pension Adjustments

As further noted below, depending on bargaining unit, the following changes became effective with EM Order No. 29:

- The Legacy Plan obligations, or the existing defined contribution plan and defined benefit plan, were frozen as of June 30, 2014, as referenced above;

- As of July 1, 2014, a new defined benefit plan commenced with mandatory contributions as part of the new Hybrid Plan. Members hired on June 30, 2014 or before contribute 6 percent of base compensation and all employees hired on or after July 1, 2014 will contribute 8 percent of base compensation; and
- As of July 1, 2014, a new defined contribution plan became optional for the annuity savings fund, in the new Hybrid Plan. Employees may make voluntary Annuity Savings Fund contributions up to 10 percent of total after-tax pay. Interest will be credited at the actual net investment rate of return of DPFRS, but will in no event be lower than 0 percent or higher than 5.25 percent.

In the Legacy Plan, frozen as of June 30, 2014, active employees made a mandatory contribution of 5 percent of pay toward their defined contribution benefits (annuity savings fund) until the date at which they are eligible for retirement.[1] These employee contributions are maintained in separate accounts in the defined contribution plan solely for the benefit of the contributing employee. Before the Legacy Plan was frozen, employee annuity savings fund accounts were credited with investment earnings equal to the rate of return earned by the System subject to minimum earnings of 0 percent. An active employee is allowed in the Legacy Plan to withdraw his or her accumulated contributions in the annuity savings fund plus investment earnings once he or she is eligible for retirement or upon completion of 25 years of service (DPOA and fire equivalents may do so at 20 years, consistent with new collective bargaining agreements entered in 2014).

Following the freeze of the Legacy Plan, no member was allowed to make contributions into the Annuity Savings Fund of the Legacy Plan with respect to payroll dates occurring on or after August 1, 2014. Mandatory employee contributions of 6 percent of pay after that date support the defined contribution benefits allowed as part of the new Hybrid Plan.

In the new Hybrid Plan, effective July 1, 2014, and beginning with payroll on or after August 1, 2014, active employees were allowed to make voluntary contributions to a new annuity savings fund account of up to 10 percent of total after-tax pay. Interest will be credited to those accounts at the actual net investment rate of return for DPFRS, but will not be lower than 0 percent or more than 5.25 percent. No in-service withdrawals are permitted from the Hybrid Plan Annuity Savings Fund accounts.

[1] Effected in EM Order No. 29, the City prepared and first published on July 1, 2014 a document called "Component II" of the Combined Plan for DPFRS, intended to reflect the provisions of the frozen Legacy Plan as they existed on June 30, 2014. A "Component I" document set forth the provisions of the Hybrid Plan under which active employees began to accrue benefits as of July 1.

In the Hybrid Plan, employer contributions by the City are allocated according to bargaining unit and the respective collective bargaining agreement (CBA). For Detroit Fire Fighter Association Employees, the City will contribute 11.2 percent of base compensation prior to the effective date of the CBA and 12.25 percent after the effective date of the CBA. For Detroit Police Command Officers Association Employees, the City will contribute 12.25 percent of base compensation. For Detroit Police Officers Association Employees, the City will contribute 11.2 percent of base compensation prior to the effective date of the CBA and 12.25 percent after the effective date of the CBA. For Detroit Police Lieutenants and Sergeants Association Employees, 12.25 percent of base compensation will be contributed by the City. For all of these employees, a portion of these contributions will be contributed to a rate stabilization fund.

Additionally, as noted above, as a result of the Chapter 9 Case, cost-of-living adjustments made to annual pension benefits to account for the effects of inflation (COLA) in the Legacy Plan from and after June 30, 2014 were reduced to 45 percent of the COLAs provided for in police and fire collective bargaining agreements, other contracts, or ordinances. These adjustments were implemented with pension payments made on March 1, 2015. Base benefits for DPFRS member benefits accrued through June 30, 2014 were not subject to any cuts in resolution of the Chapter 9 Case.

Beginning March 1, 2015, certain DPFRS members received benefit pension cut restoration under the Income Stabilization Fund program administered by DPFRS pursuant to the State Contribution Agreement based on eligibility and benefit payments calculated by the State of Michigan.

Note 9 to the financial statements discusses, in further detail, the changes resulting from the Plan of Adjustment.

Benefit Payments

The System exists to pay the benefits which its members have earned pursuant to benefits promised by the City, subject to the Chapter 9 Case benefit adjustments going forward in the Legacy Plan and the new promises in the Hybrid Plan. Benefits are paid monthly. In fiscal year 2014, DPFRS paid out $323 million in benefits, consisting of $285 million in benefits to retirees and beneficiaries plus $38 million in refunds of annuity savings fund balances. This represents approximately 10 percent of the net position of the System as of June 30, 2014. Employee contributions were approximately $8.0 million or 0.2 percent of the net position 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.

As of June 30, 2014, due to the freeze for the Legacy Plan, no additional benefit accruals are being earned in the Legacy Plan.

GASB Statement No. 67 Adoption

As of July 1, 2013, the System was required to adopt Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, which significantly revises existing guidance for the financial reports of most governmental pension plans.

GASB Statement No. 67 introduces significant changes to the timing and manner in which the actuarial valuation is performed, including changes to how the discount rate is calculated for accounting purposes. In addition, significant new note disclosures and required supplemental information schedules are now required.

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 System's asset allocation policy as of June 30, 2014:

Equities	43.0%
Fixed income	28.0%
Real estate	13.0%
Alternative investments	15.0%
Cash	1.0%

Michigan law imposes 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

DPFRS calculates investment results on a time weighted Global Investment Performance Standard (GIPS) basis. This method 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 periods prior to 2003 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 GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

Total Fund Composite

DPFRS' total fund composite return for the year was 18.4 percent, net of fees and expenses using a time-weighted methodology. This year's gains mark the third double-digit return the Pension Fund has earned over the last five years. The five-year total fund composite return was 10.3 percent, annualized, net of fees and expenses. Returns were led by strong global equity markets, with investments in domestic and international stock returning nearly 24 percent for the year. Global stocks represented nearly 40 percent of total plan assets as of June 30, 2014.

This year's 18.4 percent return is well above DPFRS' pre-Chapter 9 Case discount rate of 8 percent, which was the long-term return assumption previously used to meet current and future benefit obligations. As part of the resolution of the Chapter 9 Case, the discount rate assumption has been set at 6.75 percent through the period ending June 30, 2023. This discount rate assumption provided in the Chapter 9 Case does not purport to establish an investment return assumption or discount rate for purposes of, or in accordance with, generally accepted accounting principles.

Total plan returns for the recent prior fiscal years ended June 30 are shown below:

2013	9.7
2012	-1.5
2011	13.8
2010	11.8

Money Weighted Rate of Return

One of the new GASB Statement No. 67 disclosure requirements is the annual money weighted rate of return. A money weighted rate of return (as opposed to the time weighted rate of return discussed in the previous section) considers both the size and timing of cash flows over the course of the year to determine an internal rate of return (sometimes referred to as an "IRR"). This return is calculated net of expenses and uses cash flows determined on a monthly basis. The DPFRS money weighted rate of return for the year using end-of-the-month cash flows was 19.8 percent.

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 or visit its website at www.pfrsdetroit.org or www.rscd.org.

Statement of Fiduciary Net Position

	June 30, 2014	June 30, 2013
Assets		
Cash and cash equivalents (Note 3)	$ 52,165,913	$ 39,561,392
Investments - At fair value (Note 3):		
Short-term investments	82,894,855	25,726,502
Stocks	1,295,157,265	1,546,808,302
Bonds	697,555,113	621,018,160
Mortgage-backed securities	63,374,032	76,038,940
Mortgage and construction loans	122,456,980	107,017,607
Equity interest in real estate	299,951,543	290,194,931
Real estate investment trusts held by custodian	176,517,750	23,523,860
Pooled investments	380,018,039	232,149,159
Private placements	67,792,405	85,647,423
Receivables:		
Accrued interest income	20,814,915	18,392,975
Receivables from investment sales	23,616,000	-
Other accounts receivable	512,243	353,595
Notes receivable from participants	17,649,803	-
Restricted assets - Amounts held in escrow	-	18,750,000
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	9,640,110	11,932,958
Repurchase agreements	69,906,125	282,732,847
U.S. corporate floating rate	-	5,108,695
Capital assets (Note 1)	1,288,922	1,234,407
Total assets	3,381,312,013	3,386,191,753
Liabilities		
Claims payable to retirees and beneficiaries	4,341,612	4,914,340
Payables for investment purchases	7,098,366	5,173,191
Amounts due broker under securities lending arrangements (Note 3)	87,552,210	320,998,625
Other liabilities	6,116,526	20,532,533
Total liabilities	105,108,714	351,618,689
Net Position - Restricted for pensions	**$ 3,276,203,299**	**$ 3,034,573,064**

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

Police and Fire Retirement System of the City of Detroit

Statement of Changes in Fiduciary Net Position

	Year Ended June 30, 2014	Year Ended June 30, 2013
Additions		
Investment income:		
Interest and dividends	$ 101,041,852	$ 96,336,483
Net increase in fair value of investments	477,575,447	312,649,568
Less investment expense	(14,983,143)	(34,898,051)
Net investment income	563,634,156	374,088,000
Securities lending income:		
Income	498,646	1,808,690
Net gain on collateral pool	2,105,876	5,563,582
Net securities lending income	2,604,522	7,372,272
Contributions - Employee	7,783,141	7,799,790
Other income	2,522,115	21,741,155
Total additions - Net	576,543,934	411,001,217
Deductions		
Retirees' pension and annuity benefits	285,512,629	279,885,732
Member refunds and withdrawals	38,027,844	35,652,101
Changes in estimate related to prior year contribution	-	29,026,800
General and administrative expenses	11,266,535	6,250,704
Depreciation expense	106,691	74,449
Total deductions	334,913,699	350,889,786
Net Increase in Net Position Held in Trust	241,630,235	60,111,431
Net Position Restricted for Pensions - Beginning of year	3,034,573,064	2,974,461,633
Net Position Restricted for Pensions - End of year	**$ 3,276,203,299**	**$ 3,034,573,064**

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

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Police and Fire Retirement System of the City of Detroit:

Reporting Entity

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

The 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.

The financial statements for the System are also reported in the combined financial statements of the City of Detroit as a pension trust fund. The assets of the pension trust funds include no securities of or loans to the City or other related parties.

On June 30, 2014, as a result of negotiations between the City and the Official Committee for Retirees of the City of Detroit and public employee unions, the existing plan benefit formulas were frozen and no new employees were allowed to earn benefits under the existing plans. The Emergency Manager issued Order #29 (Police and Fire Retirement Systems of the City of Detroit) on June 30, 2014 which put these changes into effect. This Plan in existence as of June 30, 2014 is known as the "legacy plan." These financial statements represent this legacy plan only.

As of July 1, 2014, all current and future employees now participate in the new hybrid pension plans. Active City employees who participate in the current plan will receive the benefits they have earned under the Retirement Systems through June 30, 2014 plus an additional benefit under the new hybrid plan formula, assuming all vesting requirements are met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Plan Sponsor Financial Condition - Impact on System

Over the last several years, the City of Detroit (the "plan sponsor") has been experiencing significant financial difficulty and liquidity concerns. In February 2013, a financial revenue team appointed by the Governor of the State of Michigan determined that a local government financial emergency existed in the City. In March 2013, the Governor appointed an emergency manager under PA 72 of 1990. In July 2013, the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan, the eligibility for which was approved in federal court in December 2013. Part of the federal court's ruling in December 2013 indicated that the bankruptcy status usurped whatever protections may be offered governmental pensions under the Michigan Constitution.

As of June 2013, the City had defaulted on approximately $71 million of pension contributions due to the System. The City's June 30, 2013 financial statements disclosed that a "substantial doubt about the City's ability to continue as a going concern" existed. During fiscal year 2014, the City did not pay any employer contributions into the System, despite the fact that there were actuarially required contributions.

The bankruptcy proceedings continued through November 2014. On November 12, 2014, the United States Bankruptcy Court for the Eastern District of Michigan entered an order confirming the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit. The effective date of the Plan occurred on December 10, 2014 and the City exited bankruptcy at that time. The emergency manager was then released from his role at the City. See Note 9 for additional information on the impact of the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit.

Accounting and Reporting Principles

The System follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Basis of Accounting

The System uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to legal requirements. 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)

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

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 $877,000,000 or 27 percent of the System's net position as of June 30, 2014 and approximately $722,000,000 or 24 percent of the System's net position as of June 30, 2013 are not publicly traded and therefore, do not always have a readily determinable market value. Of the alternatives held at June 30, 2014, the System classifies approximately 34 percent as real estate related investments, 14 percent as mortgage and construction loans, and the remainder is classified as either private placements or pooled investments. As of June 30, 2013, the System classifies approximately 40 percent of alternatives as real estate investments, 15 percent as mortgage and construction loans, and the remainder is classified as either private placements or pooled investments.

Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. 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.

Receivable from Investment Sales - The System liquidated an investment prior to June 30, 2014 and reported a receivable from investment sales at June 30, 2014 in the amount of $23,616,000 as the proceeds from the sale were received subsequent to year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Notes Receivable from Participants - Any active, terminated, or retired police and fire employee who is or has been a participant in the 1973 defined contribution plan (annuity savings fund) may be eligible for the employee loan program. The minimum amount of the loan was established at $1,000. The maximum loan is the lesser of 50 percent of the member's account balance in the annuity saving fund or $15,000. Members can borrow as either a general purpose loan payable in one to five years or a residential loan payable in 1 to 15 years. A member can have only two outstanding loans. The balance of these loans for the years ended June 30, 2014 and 2013 was $17,649,803 and $0, respectively, measured at the unpaid principal balance plus any accrued but unpaid interest. Participant notes receivable are written off when deemed uncollectible.

Restricted Assets - As part of one of its credit enhancement agreements (see Note 8), the City was required to set aside $18,750,000 in a separate account in case of a borrower default. At June 30, 2013, this amount has been shown as restricted assets - amounts place in escrow. At June 30, 2014, there are no restricted assets as there were no outstanding credit enhancement agreements.

Capital Assets - Capital assets for the System include 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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Reporting Change - During the year, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial Statement elements deferred outflows of resources and deferred inflows of resources. The Statement did not impact the System.

Note 1 - Summary of Significant Accounting Policies (Continued)

The System also adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, during the year. The statement establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. As a result of the implementation of GASB Statement No 67, the System's financial statements now include new disclosures and required supplemental information focused on the System's total and net pension liability.

Upcoming Accounting Change - In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The System is currently evaluating the impact this standard will have on the financial statements when adopted during the System's 2016 fiscal year.

Note 2 - Pension Plan Description

Plan Administration - The System's board of trustees administers the Police and Fire Retirement System of the City of Detroit Pension Plan - a single-employer defined benefit and defined contribution pension plan that provides retirement benefits, as well as survivor and disability benefits, for plan members and beneficiaries. Plan members include active employees, retirees, and beneficiaries from the police and fire departments of the City of Detroit. Benefit terms have been established by contractual agreements between the City and the employees' collective bargaining unit; amendments are subject to the same process. The obligation to contribute to and maintain the System was established by the City Charter and negotiations with the employees' collective bargaining unit.

The board of trustees consists of 16 members. 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), the budget director (or designee), and two ex-officio trustees to be appointed by the mayor.

Note 2 - Pension Plan Description (Continued)

Plan Membership - At June 30, 2013, the System's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	8,476
Inactive plan members entitled to but not yet receiving benefits	235
Active plan members (includes 565 DROP Members)	3,266
Total	11,977

As of June 30, 2014, the Plan has been frozen. As of that date, no new participants were allowed to enter the plan and no new benefit accruals were allowed for existing participants.

Benefits Provided - The System provides retirement, disability, and death benefits. Benefit terms are established by negotiations between the City Council and the employees' collective bargaining unit and may be amended by the City Council.

Contributions - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the System retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the years ended June 30, 2014 and 2013, the average active member contribution rate was 5.0 percent of annual pay. The City's average contribution rate for fiscal year 2014 was 30.59 percent of annual payroll and was determined per the actuarial valuation as of June 30, 2012. The City's average contribution rate for fiscal year 2013 was 23.14 percent of annual payroll and was determined per the actuarial valuation as of June 30, 2011. The City did not make any payments towards the required contribution during fiscal years 2014 and 2013.

The City filed for bankruptcy in 2013 and on November 12, 2014, the United States Bankruptcy Court for the Eastern District of Michigan entered an order confirming the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit. Going forward, the obligation for the City to contribute to the System will be determined by the provisions in the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit. Please read Note 9 for further information.

Note 2 - Pension Plan Description (Continued)

Deferred Retirement Option Program (DROP)

In lieu of terminating employment and accepting a retirement allowance under the plan, any member of the System who is eligible for the DROP program may defer the receipt of his or her retirement allowance, continue services, and be paid compensation. At the time of the DROP election, the member's no longer accrues a benefit. The program credits the employee for benefit payments that would have been paid had they retired normally by depositing 75 percent of the monthly payment with a third-party administrator in the member's name. The remaining 25 percent of the monthly payments are retained by the System for general purposes. The DROP allocations continue if the member continues to be actively employed as a police officer or a firefighter with the City. The member is eligible to withdraw the amounts deposited with the third-party administrator upon retirement. In addition, upon retirement, the retiree receives 100 percent of his or her retirement benefits. There are no amounts held by the System at June 30, 2014, as all amounts due to the members pursuant to the DROP election are held by a third-party administrator.

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 347 of 2012 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 347 of 2012. The System's deposits and investment policies are in accordance with statutory authority.

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, credit risks, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported on the statement of changes in fiduciary net position.

Note 3 - Deposits and Investments (Continued)

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. Approximately $11.8 million and $21.0 million of the System's checking account balances was uninsured and uncollateralized at June 30, 2014 and 2013, respectively. 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, 2014, the average maturities of debt 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	$ 111,196	$ 4,505	$ 44,859	$ 17,696	$ 44,136
Government assets and mortgage backed	62,414	1,579	3,192	3,130	54,513
Treasuries, including futures	(2)	-	(5)	26	(23)
Corporate**	308,719	10,701	104,948	151,024	42,046
Private placement	136,703	4,203	37,472	85,403	9,625
Convertible bonds	49,777	7,912	19,237	7,283	15,345
State and local obligations	6,626	-	510	5,539	577
Convertible preferred stock	3,662	3,662	-	-	-
Construction loans	19,000	-	19,000	-	-
Mortgages	103,294	88,962	14,332	-	-
Total	$ 801,389	$ 121,524	$ 243,545	$ 270,101	$ 166,219

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

Note 3 - Deposits and Investments (Continued)

At June 30, 2013, 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	$ 152,847	$ 13,522	$ 42,441	$ 9,164	$ 87,720
Government assets and mortgage backed	48,743	-	2,524	4,362	41,857
Treasuries, including futures	1,572	1,369	(49)	391	(139)
Corporate**	346,879	13,668	124,144	170,236	38,831
Private placement	132,171	4,421	44,024	70,850	12,876
Convertible bonds	25,772	3,479	10,197	5,093	7,003
State and local obligations	5,772	-	-	5,772	-
Convertible preferred stock	9,698	9,130	-	-	568
Construction loans	1,000	-	1,000	-	-
Mortgages	106,492	-	106,492	-	-
Total	$ 830,946	$ 45,589	$ 330,773	$ 265,868	$ 188,716

** 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, 2014, the credit quality ratings of debt securities (other than the U.S. government) as rated by Moody's are as follows:

Investment Type and Fair Value (in thousands)	AAA	AA	A	BAA	BA	B	CAA and Below	NR
Corporate fixed income	$ 8,838	$ 17,259	$ 54,153	$ 116,643	$ 35,903	$ 63,190	$ 14,583	$ 17,985
Government fixed income	144,220	3,170	404	-	-	-	-	9,632
Private placements	2,359	4,365	9,722	16,744	25,768	55,758	14,077	11,105
Convertible bonds	-	-	3,270	3,567	706	1,893	-	23,481
Future contracts	-	-	-	-	-	-	-	(1)
Mortgages	-	-	-	-	-	-	-	103,294
Preferred securities	-	-	-	558	-	55	-	4,008
Convertible preferred stock	-	-	-	2,282	421	-	-	5,772
Convertible private placements	-	-	-	-	-	725	-	9,348
Construction loans	-	-	-	-	-	-	-	19,000
Total	$ 155,417	$ 24,794	$ 67,549	$ 139,794	$ 62,798	$ 121,621	$ 28,660	$ 203,624

Note 3 - Deposits and Investments (Continued)

As of June 30, 2013, 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	BAA	BA	B	CAA and Below	NR
Corporate fixed income	$ 40,136	$ 21,664	$ 88,655	$ 111,218	$ 27,177	$ 59,878	$ 16,806	$ 40,804
Government fixed income	146,357	1,381	-	-	-	-	-	-
Private placements	6,100	3,815	3,807	18,831	15,586	46,364	17,889	10,708
Convertible bonds	-	-	2,164	1,658	1,177	1,617	-	19,321
Future contracts	-	-	-	-	-	-	-	203
Convertible preferred stock	-	-	-	2,085	427	727	-	7,158
Preferred stock	-	-	-	533	114	-	-	2,890
Convertible private placements	-	-	-	-	226	557	-	7,588
Construction loans	-	-	-	-	-	-	-	1,000
Mortgages	-	-	-	-	-	-	-	106,492
Total	$ 192,593	$ 26,860	$ 94,626	$ 134,325	$ 44,707	$ 109,143	$ 34,695	$ 196,164

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, 2014, the following securities are subject to foreign currency risk (in thousands):

	Equity	Forward Contracts (Including Payable/ Receivable)	Cash	Net Investment Receivable/ (Payable)
Australian dollar	$ 4,939	$ 7,392	$ 52	$ (358)
Brazilian real	539	-	3	-
British pound sterling	42,781	8,093	621	(198)
Canadian dollar	10,157	3,214	54	-
Danish krone	1,768	1,715	17	-
Euro currency	82,233	(13,738)	2,350	(413)
Hong Kong dollar	13,189	(1,212)	33	(203)
Indian rupee	1,159	-	-	-
Israeli shekel	-	602	3	-
Japanese yen	65,600	(19,084)	465	-
Malaysian ringgit	300	-	-	-
New Taiwan dollar	546	-	-	-
New Turkish lira	307	-	-	-
Norwegian krone	7,092	(480)	51	47
Philippines peso	-	-	8	-
Russian new ruble	658	-	46	-
Singapore dollar	269	1,704	14	-
South African rand	1,054	-	9	-
South Korean won	3,455	-	11	-
Swedish krona	2,877	3,620	17	-
Swiss franc	26,782	(3,267)	277	142
Total	$ 265,705	$ (11,441)	$ 4,031	$ (983)

Note 3 - Deposits and Investments (Continued)

At June 30, 2013, the following securities are subject to foreign currency risk (in thousands):

	Equity	Forward Contracts (Including Payable/ Receivable)	Cash	Net Investment Receivable/ (Payable)
Australian dollar	$ 11,439	$ 3,557	$ 62	$ 144
Brazilian real	866	-	18	-
British pound sterling	66,701	3,841	132	120
Canadian dollar	20,256	2,142	713	(45)
Danish krone	4,889	(95)	78	(153)
Euro currency	97,886	(1,969)	5,073	(1,166)
Hong Kong dollar	13,840	1,080	241	90
Indian rupee	347	-	-	-
Indonesian rupiah	791	-	1	-
Israeli shekel	1,573	462	126	-
Japanese yen	88,128	(18,474)	922	(680)
Malaysian ringgit	344	-	-	-
New Taiwan dollar	2,191	-	600	-
New Turkish lira	187	-	2	-
New Zealand dollar	295	-	9	-
Norwegian krone	6,753	748	61	22
Philippines peso	-	-	9	-
Russian new ruble	1,349	-	-	-
Singapore dollar	2,717	600	15	9
South African rand	645	-	5	-
South Korean won	3,963	(161)	-	161
Swedish krona	4,304	2,814	23	17
Swiss franc	39,419	(5,289)	620	(307)
Thai baht	237	-	-	-
Total	$ 369,120	$ (10,744)	$ 8,710	$ (1,788)

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, 2014, the collateral provided was 102.17 percent of the market value of the loaned securities. As of June 30, 2013, the collateral provided was 103.98 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, 2014 and 2013 was four days and two 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, 2014 and 2013, 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, 2014 were $87,552,210 and $85,691,007, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2014; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	$ 1,642,663
U.S. corporate fixed income	11,215,901
U.S. equities	69,558,862
Non-U.S. equities	3,273,581
Total	$ 85,691,007

Note 3 - Deposits and Investments (Continued)

The fair market value of the collateral pool related to securities lending at June 30, 2014 was $79,546,235. The investments were in asset-backed securities and repurchase agreements. Approximately 88 percent of these securities had a duration of less than one year and 12 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2014 as rated by S&P are as follows:

Ratings		Amount
B		$ 439,538
CCC		9,206,816
NR		69,899,881
	Total	$ 79,546,235

The collateral held (at cost) and the fair market value of underlying securities on loan for the System as of June 30, 2013 were $320,998,625 and $308,701,835, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2013; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	$ 17,999,415
U.S. corporate fixed income	34,803,200
U.S. equities	235,065,974
Non-U.S. equities	20,833,246
Total	$ 308,701,835

The fair market value of collateral of the securities lending at June 30, 2013 was $299,774,500. The investments were in agencies, asset-backed securities, notes, (floating rate), money funds, and repurchase agreements. Approximately 97 percent of these securities had a duration of less than one year 3 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, 2013 as rated by S&P are as follows:

Ratings		Amount
AAA		$ 2,406,257
AA		4,008,616
A		1,100,079
B		702,907
CCC		8,834,424
NR		282,722,217
	Total	$ 299,774,500

Note 4 - Pension Plan Investments - Policy and Rate of Return

Investment Policy - The Systems's policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board of trustees to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board of trustees' adopted asset allocation policy as of June 30, 2014:

Asset Class	Target Allocation
U.S. stocks	19.0%
Non-U.S. stocks	19.0%
MLPs	5.0%
U.S. bonds	17.5%
Cash equivalents	1.0%
Private real estate	5.0%
Public real estate	8.0%
Private markets	10.0%
High yield	8.0%
Private mortgage	2.5%
Hedge funds	5.0%

Note 4 - Pension Plan Investments - Policy and Rate of Return (Continued)

Rate of Return - For the year ended June 30, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.8 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 5 - Pension Plan Reserves

In accordance with state law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is made up of two reserves - Annuity Reserve Fund and Pension Reserve Fund. The Annuity Reserve Fund is an accumulation of transfers are made from the annuity savings 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. The pension reserve fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the pension accumulation fund.

The employee reserve (Annuity Savings Fund or "ASF") is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate approved by the Board which is based on the recognized rate of return per the previous actuarial valuation. During fiscal year 2014, the Board approved the interest rate at 3.8 percent. Members are eligible to withdraw if they left the City for any reason (retire, laid off, quit, disability, death), have 25 years of service (or 20 for DPOA or Fire equivalents), conversion from disability, or have an eligible domestic relations order (EDRO). When an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions, the balance is transferred to the Annuity Reserve Fund.

The balances of the reserve accounts as of June 30, 2014 and 2013 are included in the table below. The reserve balances as of June 30, 2014 shown below do not include the current year transfer amount related to fiscal year 2014 retirements for which amounts are transferred from the employee reserve to the retiree reserve. These transfers are pending as of June 30, 2014.

	2014	2013
Employee contributions	$ 155,258,272	$ 178,231,705
Retired employees	2,883,228,305	2,934,019,383

Note 6 - Net Pension Liability of the City

The net pension liability of the City has been measured as of June 30, 2014 based on benefits in force as of that date and is comprised of the following:

Total pension liability	$ 4,407,788,045
Plan fiduciary net position	3,276,203,299
City's net pension liability	$ 1,131,584,746
Plan fiduciary net position as a percentage of the total pension liability	74.3 %

Significant changes occurred subsequent to June 30, 2014 due to the provisions in the City's Plan of Adjustment. See Note 9 for more information about those changes and how the changes impact both the City's total pension liability as well as its net pension liability.

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, which were different between the beginning of year (July 1, 2013) and the end of the year (June 30, 2014) due to the plan freeze and changing assumptions:

To calculate the beginning of year total pension liability, the following signficant assumptions were made:

Inflation	4.0%	
Salary increases	5.0%-9.2%	average, including inflation
Investment rate of return	8.0%	net of pension plan investment expense, including inflation

Mortality rates were based on 95 percent of the RP-2000 Combined Table for males and 100 percent of the RP-2000 Combined Table set back two years for females.

To calculate the end of year pension liability, the following significant assumptions were made:

Due to the plan freeze, pay was not assumed to increase in the future and no inflation assumption was utilized. The investment rate of return (net of pension plan investment expense, including inflation) applied to the end of year total pension liability was 7.2 percent.

Note 6 - Net Pension Liability of the City (Continued)

To calculate the total pension liability as of June 30, 2014, the mortality assumption was changed to the RP-2014 Blue Collar Mortality Tables, Employees and Health Annuitants, for males and females with fully generational mortality projections using the two-dimensional Mortality Improvement Scale MP-2014.

The actuarial assumptions used in the June 30, 2013 valuation to calculate the total pension liability as of June 30, 2014 were based on the results of an actuarial experience study for the period from July 1, 2008 to June 30, 2013.

Cost-of-living adjustments: For both the beginning and end of year calculations of the total pension liability, for certain active members, depending upon bargaining group, benefits are increased annually by 2.25 percent of the original pension amounts at retirement.

Attribution period: As addressed more fully in Note 9, as of June 30, 2014, the plan was frozen such that no new benefit accruals were allowed and no new members could join. Starting July 1, 2014, the participants in this legacy plan will now be earning benefits under a newly created defined benefit plan. GASB Statement No. 67 requires that the service costs of all pensions be attributed through all assumed exit ages, through retirement. Neither GASB Statement No. 67 nor any other GASB standard has set forth guidance specifically related to frozen plans with successor plans in place. Absent any guidance to the contrary, due to the status as a frozen plan combined with the fact that individuals are now earning service in a new defined benefit pension plan, the retirement date for purposes of attribution was assumed to be June 30, 2014 for all members. Therefore, the total pension liability at June 30, 2014 is equal to the present value of projected benefit payments.

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2014 was 7.2 percent; however, the single discount rate used at the beginning of the year was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on the above assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees both at the beginning of the year as well as at the end of the year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 6 - Net Pension Liability of the City (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. stocks	4.49%
Non-U.S. stocks	4.68%
MLPs	7.02%
U.S. bonds	1.61%
Cash equivalents	-0.24%
Private real estate	3.95%
Public real estate	3.32%
Private markets	6.98%
High yield	3.41%
Private mortgage	3.41%
Hedge funds	4.10%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.2 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.2 percent) or 1 percentage point higher (8.2 percent) than the current rate:

	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
Net pension liability of the City	$ 1,644,647,869	$ 1,131,584,746	$ 707,632,759

Note 7 - 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 Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit. The understanding was that any future UAAL that may arise would 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 systems 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 8 - Credit Enhancement Agreements and Funding Commitments

The System did not have any outstanding credit enhancements at June 30, 2014.

The System had an outstanding credit enhancement agreement totaling $15,000,000 during 2013. In exchange for the credit enhancement, the System receives fees from the company to which the enhancement agreements have been given. As a part of the credit enhancement agreement, the System was required to maintain a minimum balance with the lending agency and had restricted cash in the amount of $18,750,000 as of June 30, 2013.

During the prior fiscal year, the System determined that the original borrower under the credit enhancement agreement would be unable to make the payments to the lending agency; therefore, the System reported a liability for $15,000,000 as of June 30, 2013 representing the underlying obligation that the System has guaranteed. This liability has been reflected in the financial statements within the other liability balances at June 30, 2013. As of June 30, 2014, the System paid the lender $15,000,000 and is no longer participating in the credit enhancement agreement.

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, 2014 and 2013, the remaining capital funding commitment for the System is approximately $42 million and $25 million, respectively.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014

Background on the City of Detroit's Chapter 9 Bankruptcy Case

On March 14, 2013, an Emergency Financial Manager, Kevyn Orr, was appointed for the City of Detroit (the "City") by the Michigan Treasury Department pursuant to Public Act 72 of 1990. On March 28, 2013, Michigan Governor Richard Snyder reappointed Mr. Orr as Emergency Manager for the City under 2012 Public Act 436, the Local Financial Stability and Choice Act, the successor statute to P.A. 72 (PA 436). PA 436 provided, under certain circumstances, the mechanism for a municipality under emergency management to obtain authorization from the State to initiate bankruptcy proceedings under the municipal debt adjustment provisions of Chapter 9, Title XI, of the United States Code (the "Bankruptcy Code"). On July 18, 2013, pursuant to authorization from the Governor, the Emergency Manager, through counsel, initiated a Chapter 9 bankruptcy for the City in the United States District Court for the Eastern District of Michigan, Case No. 13-53846 (the "Chapter 9 Case").

The General Retirement System (DGRS) and Police and Fire Retirement System (DPFRS) are the two pension systems of the City of Detroit (the "Systems") and were two of the City's creditors. Under the Public Employee Retirement System Investment Act, 1965 Public Act 314, as amended (Act 314 or PERSIA), DGRS and DPFRS have responsibility to pursue collection of employer contributions from the City, their municipal plan sponsor. As of July 18, 2013, the City had past due employer contributions due to both DGRS and DPFRS, as well as ultimate responsibility for unfunded actuarial accrued liability (UAAL) for pension obligations to each retirement system. The Michigan Constitution of 1963, under Article IX Sec. 24, provides that "[t]he accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby" (the "Pension Clause"). At the time of the filing of the Chapter 9 Case, there was uncertainty regarding how the Bankruptcy Court might treat the constitutional protections afforded by the Pension Clause to Detroit's pension obligations.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

The Systems objected to the City's eligibility to be a debtor Chapter 9 of the Bankruptcy Code on various grounds, including that the City was not specifically authorized by state law to be a Chapter 9 debtor the System argued, in part, that the Pension Clause prohibited impairment of accrued financial benefits and that the bankruptcy authorization was not valid under state law because it did not prohibit the impairment of accrued financial benefits of the Bankruptcy Code. On December 5, 2013, after an eligibility hearing lasting several weeks, the Bankruptcy Court determined that the City was eligible to be a debtor under Chapter 9, and found that pension obligations were subject to impairment in the Chapter 9 case notwithstanding the protections of the Pension Clause. The Systems and others representing creditor interests immediately sought and obtained permission from the Bankruptcy Court for direct appeal of that eligibility determination in the United States Court of Appeals for the Sixth Circuit.

Mediation and the Pension Settlement

In early 2014, the Chapter 9 Case proceeded while appeals of the eligibility determination were prosecuted. The proceedings included Court-ordered mediation, wherein the Systems and other creditors were required to mediate their disputes with the City.

On May 5, 2014, the City filed its Fourth Amended Plan for the Adjustment of Debts of the City of Detroit and the Fourth Amended Disclosure Statement with Respect to the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit (the "Disclosure Statement"), which memorialized the terms of proposed treatment of pension claims as part of a mediated resolution of those claims for DGRS and DPFRS claim holders in unsecured creditor claim Classes 11 and 10, respectively (the "Pension Settlement"). The Pension Settlement's terms were carried forward, with finalized terms of certain exhibits with related agreements, in the Eighth Amended Plan for Adjustment of Debts of the City of Detroit (the "Plan" or "Plan of Adjustment") (see Case No. 13-5486, Docket No. 8045, filed October 22, 2014).

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

As described further below, the Pension Settlement offered two different levels of pension claim treatment, depending on whether or not the individual pension claimants representing the obligations administered by DGRS and DPFRS voted as classes to accept the Pension Settlement, as described in both the Plan as well as the Disclosure Statement. The City's classification system for its unsecured creditors placed DGRS claim holders in Class 11 and DPFRS claim holders in Class 10. If both of these classes voted in favor of the more favorable treatments being offered to them under the Plan, and funding is received from the DIA Settlement and the State Contribution Agreement, then both DGRS and DPFRS claims holders would potentially enjoy that more favorable treatment, subject to certain conditional future events, such as monies contributed by the State of Michigan. If either Class 10 or Class 11 did not vote as a class to support the Plan, then both classes would have been subject to less favorable treatment, as described in the Disclosure Statement.

The Pension Settlement also required the eventual stipulated dismissal of certain litigation, including the Systems' appeal of the Bankruptcy Court's eligibility determination. That appeal was dismissed in early 2015 after the effective date of the Plan.

Pension Settlement Ballot Support and Confirmation of the Plan

On May 12, 2014, the City issued ballots to individual pension claim holders in Classes 10 and 11 as part of a packet of information explaining the terms of the Pension Settlement and soliciting support for the Plan. On June 11 and 19, 2014, the DGRS and DPFRS boards respectively adopted resolutions expressing support for the Pension Settlement and thereafter issued correspondence in support of the Plan to their membership, who were the Class 10 and 11 claim holders who received ballots. The balloting process closed on July 11, 2014, and, as later certified on July 21, 2014 by the City's balloting agent, Kurtzman Carson Consultants, LLC, Classes 10 and 11 voted to support the Plan.

Following a confirmation hearing lasting almost two months and marked by settlements with other significant creditor groups, the Bankruptcy Court entered an order confirming the Plan of Adjustment (Eighth amended) on November 12, 2014. The Effective Date of the Plan occurred on December 10, 2014. The Retirement Systems had been preparing for that likelihood for over two months, and as a result, implementation of the Plan and its pension-related benefit adjustments were well underway by the close of 2014.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

For DPFRS claim holders in Class 10, the more favorable treatment, defined in the Plan as "PFRS Adjusted Pension Amount" and further described in the Disclosure Statement, is a reduction of any future rights to cost-of-living adjustment payments, or 'escalators' (COLAs) by 55 percent to be paid after June 30, 2014.

The Grand Bargain

The Pension Settlement was one component of a larger and conditional framework of agreements reached in mediation and memorialized in the Plan and certain of its exhibits, as later amended, finalized, and confirmed. This mediated resolution was designed to provide financial support for the City's pension obligations through 2023 while committing the art assets of the Detroit Institute of Arts, operated by the nonprofit DIA Corp. (the "DIA") to a trust to prevent its liquidation by creditors. This framework of agreements draws on support from both the State of Michigan as well as from the DIA through the DIA settlement, which relies on contributions over time from certain DIA funders and charitable foundations (the "DIA Funding Parties") whose support was organized by the DIA (the "DIA Settlement"). This framework includes a release of claims related to pension obligations and dismissal of certain related litigation, as well as certain governance changes by the Systems, additional reporting obligations, and establishment of income stabilization programs by DGRS and DPFRS to reduce the financial impact of the pension cuts in the Chapter 9 Case felt by the City's most vulnerable retirees and beneficiaries. This larger framework of agreements became publicly referred to as "The Grand Bargain."

Contributions to the System through 2023

As set forth in the Plan and its exhibits, The Grand Bargain calls for an aggregate value contribution to DGRS and DPFRS, through 2023, in the amount of $816 million collectively, by the State of Michigan and the DIA Funding Parties through the DIA Settlement. The Plan, in its attached Exhibits II.B.3.q.ii.A, sets forth the schedule of anticipated contributions to DPFRS supporting legacy pension benefits for the 10-year period ending June 30, 2023, reflecting total contributions in that time, of $260.7 million. DPFRS contributions through 2023 reflects $96 million from the State of Michigan in fiscal year 2015, and $164.7 million in equal installments of $18.3 million from 2015 through 2023 from the DIA Settlement. The Plan fixes City-related contributions through 2023, after which time the City's General Fund will retain the obligation for its allocable share of any UAAL consistent with Michigan law.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Pursuant to the State Contribution Agreement, exhibit I.A.332 to the Plan, The Grand Bargain requires the State of Michigan to commit the net present value of $350 million to the Systems, the present value of which was determined to be $194.8 million, allocated respectively between DGRS and DPFRS in the amount of $98.8 million and $96.0 million. The Michigan Legislature allocated the necessary funds as part of a package of legislation adopted and executed by the Governor in June 2014 (the “Plan Legislation”). The State’s funding obligations were fulfilled by wire transfers from the Michigan Treasury to DGRS and DPFRS on February 9, 2015.

As set forth in the Principal Terms of the DIA Settlement, Exhibit I.A.126 to the Plan, the DIA and its funders are obligated to contribute $100 million over time, which the DIA has guaranteed. The foundations contributing to the settlement are required to fund a commitment of $366 million over time. On December 10, 2014, DPFRS received its first $18.3 million installment payment from the DIA Settlement.

Actuarial Assumption, Governance, and Income Stabilization Funds

The requirements of the Plan, the State Contribution Agreement, and the Plan Legislation also include a fixing of the Systems' assumed investment rate of return and discount rate; certain governance changes to the Systems, including creation of investment committees and additional reporting obligations; and creation of the income stabilization funds within each retirement system (ISFs).

First, the Plan requires that the investment return assumption and discount rate adopted by the board of trustees of each retirement system for purposes of determining the value of each Retirement System’s assets and liabilities be fixed at 6.75 percent through the period ending June 30, 2023. The Plan does not purport to establish an investment return assumption or a discount rate for purposes of, or in accordance with, generally accepted accounting principles.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Second, DPFRS established an investment committee, as required by the Plan, the State Contribution Agreement - particularly, Exhibit B to the State Contribution Agreement, the term sheets for DPFRS Investment Committee Governance - and the Plan Legislation, as of the Effective Date of the Plan, December 10, 2014. The DPRFRS Investment Committee (the "Investment Committee") is comprised of nine members who are appointed independent of the Retirement System trustee members. The Investment Committee has fiduciary responsibility for guiding investment decisions, monitoring and assisting the board of trustees with administration of the DPFRS plan benefit provisions, supporting annual certifications related to the same, and meeting certain other obligations as required by the State Contribution Agreement, the DPFRS Governance Term Sheets, and the DIA Settlement. The Investment Committee also bears responsibility for making recommendations to the DPFRS board of trustees regarding matters of "Investment Management," which is a term defined in the DPFRS Governance Term Sheets incorporated in the State Contribution Agreement. For the System, "Investment Management" with respect to assets means:

1. Developing an investment policy statement with sound and consistent investment goals, objectives, and performance measurement standards which are consistent with the needs of the Plan.
2. Within 120 days after the Effective Date of the Plan of Adjustment, all of the plan assets not already under qualified management, if any, must be managed by qualified managers selected by the Investment Committee.
3. Evaluating, retaining, terminating, and selecting qualified managers to invest and manage the plan assets.
4. Reviewing and affirming or rejecting the correctness of any and all calculations, actuarial assumptions, and/or assessments used by the Retirement System actuary including, but not limited to, (i) those underlying the restoration of pension benefits, funding levels, and amortization thereof, all in accordance with the pension restoration program attached to the City's Plan of Adjustment, (ii) those underlying the determination of annual funding levels and amortization thereof, and (iii) on or after fiscal year 2024 the recommended annual contributions to GRS in accordance with applicable law.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

5. In accordance with approved actuarial work as provided in the immediately preceding paragraph and based on the annual actuarial valuation reports and any other projections or reports as applicable from the Retirement System actuary or other professional advisors, the determination of the extent of restoration of pension benefits, including but not limited to the payment of a portion of the 4.5 percent reduction in base monthly pension amounts and the payment of lost COLA payments, all in conformance with the pension restoration program between the City and the Board attached to the Plan of Adjustment.
6. Communicating the investment goals, objectives, and standards to the investment managers; including any material changes that may subsequently occur.
7. Determining and approving the Retirement System's investment and asset allocation guidelines, taking into account the appropriate liquidity needs of the Retirement System.
8. Any interpretation of Retirement System documents, existing law, the Plan of Adjustment, or other financial determination that could affect funding or benefit levels.
9. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as expected.
10. Complying with the provisions of pertinent federal, state, and local laws and regulations, specifically Public Act 314 and plan investment guidelines.
11. Reviewing and approving, prior to final issuance, the annual audit and all financial reports prepared on behalf of the Retirement System and meet and confer with the Retirement System's outside auditor or other professional advisors as necessary prior to approving the annual audit or other financial reports.
12. Causing an asset/liability valuation study to be performed for the Retirement System every three years, or as requested by the Investment Committee or Board.

The special reporting obligations of the Investment Committee include:

- Assisting the board of trustees with annual certification to the State Treasurer that eligibility and payment of benefits with respect to eligible pensioners has been properly administered.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

- Providing semiannual compliance reports and at such times as the Treasurer may request that certifies that the Investment Committee is not aware of any defaults, or if the Investment Committee is aware of a default, specifically identifying the facts of such default. If the Investment Committee receives a notice of default from the Treasurer, the Investment Committee is responsible for remedying the default and certifying its cure to the Treasurer.

- Providing to the City evidence reasonably necessary to show that the internal controls governing the investment of the respective Retirement System are in compliance with the applicable provisions of the Plan.

- Beginning in 2015, no later than December 31, providing the DIA "Supporting Organization," defined in the Omnibus Transaction Agreement, Exhibit I.A.127 to the Plan, as the Foundation for Detroit's Future (the "FDF"), with a copy of the audited annual financial statement of its Retirement System and the corresponding management letter, for the fiscal period ending June 30 of that year containing a nonqualified opinion of an independent external auditor.

- Providing certification to the FDF as of the date of the Annual Report by the Chair of the Investment Committee that the City is current in its obligation to support the Legacy Plans consistent with the Plan, the operation of the Investment Committee is consistent with the applicable Governance Terms, and the City is complying with the covenants in section 5.2(a) of the Omnibus Transaction Agreement, Exhibit I.A.127 to the Plan.

- Providing to the FDF copies of documentation provided to the State Treasurer under paragraph 6 of the State Contribution Agreement, including any compliance report, certificate of compliance, notice of default, or cure certification.

- Beginning in 2016, before May 15 each year, providing the Chief Financial Officer of the City with a copy of information required of DPFRS in paragraph 2.4(c) of the Omnibus Transaction Agreement, which is Ex. I.A.127 to the Plan.

- Beginning in 2016, by May 15 each year, confirmation to the Chief Financial Officer of the City that as of the date of the Chief Financial Officer's interim reaffirmation required in paragraph 2.4(c) of the Omnibus Transaction Agreement, which is Ex. I.A.127 to the Plan, there has been no impairment or modification of the information in the most recent pension certificates provided to the FDF by the Investment Committee since the date of the pension certificates, as well as copies of the most recent unaudited financial statements for DPFRS.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

- Providing the FDF with any additional information that may be reasonably requested by the DIA "Supporting Organization" from time to time.

Third, the State Contribution Agreement and the Plan required DGRS and DPFRS to each create an Income Stabilization Fund (ISF) as a segregated account within each Retirement System, using $20 million in funding to be received over a 14 year period assigned by the City from its settlement involving the Unlimited Tax General Obligation Bonds, from which to fund certain supplemental benefit payments to certain Eligible Pensioners under the ISF programs. The ISF program benefit payments are intended to reduce the impact of the pension reductions on the most financially vulnerable System retirees and beneficiaries. Eligibility for the ISF programs and benefit payments is based on age, 2013 adjusted gross income, and a formula derived by the State Treasury based on the terms of the State Contribution Agreement. Through 2028, the $20 million in assigned funding from the UTGO settlement to support the ISF program benefits is allocated to DPFRS in the amount of $5,006,622.37 with the remainder allocated to DGRS. Initial payments supporting the ISF program assigned by the City from UTGO proceeds were received by DPFRS by wire on December 10, 2014, in the amount of $99,248.44. These amounts track the schedule of assigned "Aggregate Payments to Plan Assignees" allocated to DPFRS for the first ISF payments after confirmation of the Plan, found attached to the Plan in Exhibit I.A.360, "Payments to Plan Assignees," Exhibit F, under "Aggregate Payments to Plan Assignees." The Systems, working with the State Treasury Department, successfully implemented the ISF program effective March 1, 2015, to coincide with the pension reductions required by the Plan.

Legacy Plan Freeze and New Hybrid Plan Creation - The Combined Plan Documents

Emergency Manager Order 29

Effective June 30, 2014, the Emergency Manager executed Emergency Manager (EM) Order 29, which included certain ordinance and charter amendments affecting the pension benefits of DPFRS members.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Based on EM Order 29, effective June 30, 2014, the then existing DPFRS pension plan (the "Legacy Plan") was frozen such that no new benefit accruals were allowed and no new members could join. At the same time, the Emergency Manager adopted a "Combined Plan" document for each Retirement System which included a "Component II," intended to compile and document the terms and provisions of the Legacy Plan as they existed on June 30, 2014. This document was submitted to the City Clerk's office on July 1, 2014. By the same EM Order, effective July 1, 2014, the Emergency Manager created an entirely new active employee pension plan within the Retirement System, with a defined contribution and defined benefit plan (the "Hybrid Plan"), based on terms either negotiated through collective bargaining agreements with most of the City's unions, or imposed by the Emergency Manager. These financial statements purport to represent only the Legacy Plan, as it existed as of June 30, 2014.

Participation by active employees in the defined benefit provisions of the Hybrid Plan is mandatory. Another significant mandate is the requirement that employees contribute toward defined benefit pension accruals in the Hybrid Plan, which was not required of employees in the Legacy Plan. The new Hybrid Plan was memorialized in a document titled "Component I" of the "Combined Plan" for each Retirement System, intended to reflect the terms of pension plans being offered to those active employees employed on or after July 1, 2014. The terms of the Combined Plans were effected well before the conclusion of the City's Chapter 9 Case, and in large measure did not rely on the power of the Bankruptcy Court to implement them.

The Combined Plan documents were later amended and restated in October 2014 and attached to the Plan before confirmation, incorporating and restating various provisions of other exhibits related to the Pension Settlement, including Governance Term Sheets, pension adjustments, and restoration terms. Also attached to the Plan was Exhibit I.A.254.b, which set forth the Principal Terms of the DPFRS Hybrid Plan (or "New DPFRS Active Pension Plan").

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

DPFRS Combined Plan Components I and II

Component I Hybrid Plan

The new Hybrid Plan, for active employees only, requires mandatory contributions to support defined benefit pension obligations by employees as well as employer contributions by the City and related entities with employees participating in DPFRS. The mandatory employee contribution feature is notable because in the Legacy Plan, the 5 percent employee contribution supported the annuity savings fund benefits, and did not provide for employee contributions to support defined benefit obligations. The Hybrid Plan requires a mandatory 6 percent employee contribution to support defined benefit benefits for those hired before July 1, 2014 (pre-risk shifting), and allows up to 10 percent of total after-tax pay to be contributed to the annuity savings fund. For employees hired on or after July 1, 2014, the mandatory employee contribution is 8 percent of base compensation, with a maximum of 12 percent employee contribution allowed for new employees.

Though the Hybrid Plan was published and made “effective” as of July 1, 2014, it was in effect the creation of an new pension system, with both defined benefit and defined contribution-style offerings. As such, the City was not able to make the necessary technical payroll adjustments to transition immediately from the Legacy to the Hybrid Plan. Those adjustments took several weeks to complete, and required significant support from RSCD administrative, accounting, and technical staff resources.

Membership in DPFRS’ Hybrid Plan is mandatory for all City of Detroit employees of the Police and Fire Departments employed as police officers, fire fighters, and appointed elective officials, and shall continue even if transferred to a civil position in their respective Departments. Liabilities shall be determined by the actuary using the entry-age normal cost method of actuarial valuation.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

DPFRS Retirement Allowance

The Hybrid Plan requires that employees contribute a mandatory 6 percent or 8 percent of base compensation each plan year, beginning in August 2014 (because of the transition time required, as noted above). In the Hybrid Plan, average base compensation used to compute average final compensation does not include overtime, unused sick leave, longevity, or any other form of bonus. The retirement allowance shall be calculated at 2 percent of the member's average final compensation over the last five consecutive years of employment multiplied by the members years of credited service earned after June 30, 2014. A month of credited service is accrued when a member works 140 or more hours of service in a month. A year of credited service is equal to 12 such months. For vesting purposes, a year is credited when a member performs 1,000 or more hours of service in each plan year after July 1, 2014, and their total vesting service shall be the sum of their prior service credit earned under the Legacy Plan governed by Component II.

For defined benefit retirement allowance under the Hybrid Plan, the City makes contributions as follows, by bargaining unit:

a. Detroit Fire Fighters Association Employees: 11.2 percent of the base compensation of eligible employees for payroll periods beginning prior to the effective date of the collective bargaining agreement and 12.25 percent of the base compensation of eligible employees for payroll periods beginning after the effective date of the collective bargaining agreement. A portion of such contribution will be credited to a rate stabilization fund.

b. Detroit Police Command Officers Association Employees: 12.25 percent of the base compensation of eligible employees. A portion of such contribution will be credited to a rate stabilization fund.

c. Detroit Police Officers Association Employees: 11.2 percent of the base compensation of eligible employees for payroll periods beginning prior to the effective date of the collective bargaining agreement and 12.25 percent of the base compensation of eligible employees for payroll periods beginning after the effective date of the collective bargaining agreement. A portion of such contribution will be credited to a rate stabilization fund.

d. Detroit Police Lieutenants and Sergeants Association Employees: 12.25 percent of the base compensation of eligible employees. A portion of such contribution will be credited to a rate stabilization fund.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Ten years of service is required in the Hybrid Plan for vesting. Deferred vested members may have benefits payable at age 55 with 10 years of service for a reduced benefit, and 10 years of service and age 62 for an unreduced benefit.

Normal retirement age in the Hybrid Plan is 50 with 25 years of service, with a transition period for active employees as of June 30, 2014:

Fiscal Year	Age and Service
2015	Age 43 and 20 years
2016	Age 43 and 20 years
2017	Age 44 and 21 years
2018	Age 45 and 22 years
2019	Age 46 and 23 years
2020	Age 47 and 24 years
2021 and thereafter	Age 50 and 25 years

Except as may be required to safeguard the long-term actuarial and funding integrity of DPFRS (see DPFRS Fiscal Responsibility, below) beginning July 1, 2015, and each plan year thereafter, the board of trustees may determine that if a retiree has been receiving a retirement allowance for not less than 12 months before the beginning of the plan year, the retiree's annual retirement allowance shall be increased by a factor of two percent (2.0 percent) compounded each year based on the amount of their original retirement allowance (the "Variable Pension Improvement Factor," or "escalator" (also known as COLA)).

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

DPFRS Voluntary Contribution Account

In the Hybrid Plan, DPFRS active members employed on or before June 30, 2014 may contribute up to 10 percent of their after-tax compensation for any plan year to an individual account. Members hired on or after July 1, 2014, may contribute up to 12 percent of their after-tax compensation. These amounts are 100 percent vested at all times. Earnings on voluntary employee contributions under the Hybrid Plan will be credited not less than zero (0 percent) or greater than five and one quarter percent (5.25 percent), at a rate equal to the actual net investment rate of return on DPFRS assets for the second plan year immediately preceding the plan year in which the earnings are credited. As with the Legacy Plan, members who terminate may choose to take distributions of their accumulated voluntary contributions, members who retire may elect to have their contributions converted by actuarial equivalent value and added to their retirement allowance, and members may choose a beneficiary to receive their accumulated contributions if they decease while employed or before receiving their distribution. A loan program is included in the voluntary employee contribution program, though a member may not have more than two loans outstanding, one from the Hybrid Plan and one from the Legacy Plan.

DPFRS DROP

Deferred Retirement Option Plan (DROP) is available for existing and future accrued benefits for employees eligible to retire under concurrent eligibility requirements. For employees not already in DROP as of June 30, 2014, no more than five (5) years of DROP participation will be allowed in either the Legacy and Hybrid Plans. If administratively and legally feasible, DPFRS will manage DROP accounts. If DPFRS manages DROP accounts, interest credits will be at a rate equal to 75 percent of the actual net investment return of DPFRS, but in no event lower than 0 percent or higher than 7.75 percent.

DPFRS Fiscal Responsibility

To protect the long-term actuarial and financial integrity of DPFRS, in the event the funding level of Component I projected over a five-year period drops below the 90 percent funding thresholds, there are a series of mandatory risk-shifting levers that the Board will implement in the order provided for in Component I. Those measures include:

a. If the funding level is less than 90 percent (using the fair market value of assets), COLAs will be eliminated (to the extent applicable).

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

b. If the funding level is 90 percent or lower (using the fair market value of assets and a three-year look-back period), the following corrective actions will be taken in the order listed below, until the actuary can state that by virtue of the use of corrective action, and a 6.75 percent discount rate and return assumption, the funding level is projected to be 100 percent on a market value basis within the next five years:

   i. eliminate COLAs (if applicable);
   ii. use amounts credited to the rate stabilization fund to fund accrued benefits;
      a. increase employee contributions by 1 percent per year (6 percent to 7 percent for current actives and 8 percent to 9 percent for new employees) for up to 5 years;
      b. increase employee contributions (active and new employees) by an additional 1 percent per year;
      c. increase employee contributions (active and new employees) by an additional 1 percent per year;
   iii. implement a one-year COLA fallback;
   iv. implement a second one- year COLA fallback;
   v. increase employee contributions by an additional 1 percent per year; and
      a. increase City contributions consistent with applicable actuarial principles and PERSIA.

Segregated Funds

The Combined Plan requires that the board of trustees maintain separate funds between the Component I Hybrid Plan and the Component II Legacy Plan, and shall not commingle those funds for purposes of funding benefits accrued by members under one Component using funds contributed for benefits in the other Component. However, the assets of Components I and II may be commingled for investment purposes, and transferred in accordance Component II, G-2(f), to fund transition liability of the Hybrid Plan under Component I.

Required Reserves and Hybrid Plan Transition Financing

The Pension Accumulation Fund is the fund that accumulates reserves for retirement allowances and other benefits other benefits payable from that portion of the Employer's annual contribution that is not credited to the Rate Stabilization Fund and amounts transferred to Component I as provided in Section G-2(f) of Component II, and from which shall be paid retirement allowances and other benefits on account of members.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

As described in Section G-2(f) of Component II, in any plan year during the period beginning on or after July 1, 2014 and ending June 30, 2023, in which the annual rate of return credited to the accounts of members investing in the Annuity Savings Fund is less than the actual rate of return net of expenses of DPFS's invested assets for the second plan year immediately preceding the year in which the annual rate of return is credited (the "ASF Return Excess"), an amount equal to the value of the ASF Return Excess shall be transferred to the Pension Accumulation Fund maintained under Component I of the Combined Plan and shall be used to fund the transition, or tart-up, cost relating to Component I.

Retiree Medical Account

In Article 17, Component I establishes a medical benefits account from which the Board shall pay the cost, otherwise borne by the employer(s) of DPFRS retirees, for certain medical and related benefits provided under plans maintained by the employers. This account is intended to comply with the provisions of Section 401(h) of the Internal Revenue Service Code. The City intends to make contributions to this account from time to time.

Component II Legacy Plan

As noted above, the Component II document, first published July 1, 2014, was intended to capture the terms of the DPFRS pension plan as they existed when benefit accruals were frozen on June 30, 2014. An express statement to this effect appeared on the cover page of that first publishing by the City:

This Component II of the Combined Plan For the Police and Fire Retirement System of the City of Detroit, Michigan is intended to memorialize the documentation for the Police and Fire Retirement System of the City of Detroit as it existed on June 30, 2014.

It was later amended and restated in October 2014 when the Emergency Manager executed EM Order No. 43, again effective July 1, 2014, though there were significant differences in the amended and restated Component II owing mostly to inclusion of provisions intended to reflect the terms of the "Grand Bargain" which were anticipated to take effect if the Plan were confirmed by the Bankruptcy Court.

Legacy Plan Freeze, Funding, and Governance

Benefit accruals in the Legacy Plan ceased as of June 30, 2014. After the transition period that ended with pay periods beginning before August 1, 2014, no further employer or employee contributions were made to the DPFRS Legacy Plan, other than those associated with the Plan, incorporating the "Grand Bargain," and the Pension Settlement.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

The anticipated sources of funding required by the Plan for contributions toward DPFRS Legacy Plan obligations through 2023 do not include the General Fund of the City of Detroit. After 2023, the General Fund will retain its responsibility for funding employer contributions to meet DPFRS' Legacy Plan defined benefit plan obligations, including any UAAL, consistent with Michigan law.

As of the Effective Date of the Plan, governance, investment management, and actuarial assumptions of the Legacy Plan are shared with the Hybrid Plan. The Component II document reflects these changes by incorporating those and related provisions into the Legacy Plan by reference in a "Common Provisions" section. The segregation of funds required by the Component I Hybrid Plan explicitly applies to Component II Legacy Plan.

Legacy Plan Membership and Benefits

Membership in the DPFRS Legacy Plan has not changed since the freeze effective June 30, 2014, and includes employees and former employees employed before that date, pursuant to the rules then in effect, depending on whether one's service began prior to, on, or after, July 1, 1941; began after July 1, 1941 but prior to January 1, 1969; or began on or after January 1, 1969 and prior to July 1, 2014. There are no new members in the Legacy Plan after June 30, 2014.

Other than the benefits adjustments and other changes required of DPFRS by the Plan, the "Grand Bargain," and the Pension Settlement, the accrued financial benefit provisions of the DPFRS Legacy Plan as of June 30, 2014 are frozen and intended to continue as they did effective that date. Whether a member is a retiree, beneficiary, terminated vested, or active member with service credit accrued in the Legacy Plan, that individual's benefits accrued as of June 30, 2014 have been fixed, or will be calculated as of that date when they apply for retirement benefits, subject to the Plan. As such, most of the benefit provisions outlined here have not changed since the date of the freeze, June 30, 2014, other than affected as described elsewhere by the Plan, the "Grand Bargain," and the Pension Settlement.

DPFRS ASF Interest Credits and Hybrid Plan Transition Liability Financing

Beginning after July 1, 2013, the annual rate of return credited to ASF accounts shall be no less than zero and no greater than the lesser of (i) 5.25 percent or (ii) the actual investment return net of expenses of DPFRS' invested reserves for the second plan year immediately preceding the plan year in which the annual return is credited. As noted above, the transition liability for the Component I Hybrid Plan will be funded from excess returns earned over and above the 5.25 percent maximum that can be credited to ASF individual member accounts.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Special Unused Sick Leave Election

Following the freeze of the Legacy Plan, the City allowed a special election period for any member who as of June 30, 2014, would have been eligible to elect to use a portion of the unused accrued sick leave that he or she could have received in cash upon retirement to increase his average final compensation if the member had been eligible to retire and had elected to retire as of June 30, 2014. This one-time election allowed a member to choose to have the value of 25 percent of the member's cashable sick leave as of June 30, 2014 included in the computation of their average final compensation.

Benefit Restoration

Restoration tied to future actuarial funding targets

Restoration of adjusted pension benefits outside the ISF program is governed by a term sheet attached as an Exhibit to the Plan, the "Terms of PFRS Pension Restoration," Exhibit II.B.3.q.ii.C. The pension restoration process provides for the possibility that cuts to accrued pension benefits in the Chapter 9 case might be restored, including COLAs, during the 30-year period following entry of the order confirming the Plan. The DPFRS Investment Committee shall supervise and undertake restoration decisions in accordance with the pension governance provisions in the State Contribution Agreement.

The restoration program operates under certain time periods and is subject to target actuarial funding levels of the System. The time periods are: (i) through June 30, 2023; (ii) July 1, 2023 through June 30, 2033; and (iii) July 1, 2033 through June 30, 2043. If projected funding levels are above targets, assets are transferred to the restoration reserve. If the assets in the reserve are sufficient to fund a restoration increment for the actuarial life expectancy to a Waterfall Class, restoration is provided in increments in accordance with a schedule. If projected funding levels fall below the applicable funding target, assets are transferred from the restoration reserve account to the pension plan, and future restoration benefits may be suspended, diminished, or terminated. Restored benefits might also be permanently restored if certain funding target levels are achieved over time. For restoration, the Retirement System's membership is divided into three 'waterfall' classes:

Waterfall Class 1: retirees in benefit pay status as of June 30, 2014, and their surviving spouses and beneficiaries;

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Waterfall Class 2: retirees who enter benefit pay status after June 30, 2014, and their surviving spouses and beneficiaries, and who are in pay status as of the end of the fiscal year prior to the year in which the restoration decision is made; and

Waterfall Class 3: all other participants who as of June 30, 2014 are not in benefit pay status.

For DPFRS, the funding targets are as follows: the 2033 and 2043 Funding Targets shall be 3.0 percent and 6 percent higher than the actual 2023 Funded Level rounded to the nearest 10th decimal. The Restoration Target shall be 3.0 percent higher than the Funding Target but not less than 81 percent and 84 percent in 2033 and 2043, respectively. The Permanent Restoration Targets shall be shall be equal to the Restoration Targets for all time periods. The Restoration Reserve Suspension Trigger will be set 1 percent higher than the projected Funding Target for all time periods.

2023 Funded Level	2033 Projected Funding Target	Restoration Target 2043 Projected Funding Target/Restoration Target
78 percent	81 percent/84 percent	84 percent/87 percent
77 percent	80 percent/83 percent	83 percent/86 percent
76 percent	79 percent/82 percent	82 percent/85 percent
75 percent	78 percent/81 percent	81 percent/84 percent
74 percent or lower	3 percent > than 2023 funded level percent/81 percent	3 percent > than 2023 funded level percent/84 percent
	2033 Permanent Restoration Target Same as 2033 Restoration Target	2043 Permanent Restoration Target Same as 2043 Restoration Target

Special Restoration Related to a Future Qualifying DWSD Transaction

The Plan also establishes, pursuant to Exhibit I.A.292, a *City of Detroit Pension Restoration Trust* to hold a single series of contingent value right certificates, or "DWSD CVR" as defined in the Plan, representing the right to receive 50 percent of the Net DWSD Transaction Proceeds received by the City's General Fund as a result of a Qualifying DWSD Transaction within the first seven (7) years following the Effective Date of the Plan. (Capitalized terms are those defined in the Plan.) Any special restoration provided to DGRS or DPFRS members pursuant to this trust arrangement will follow the priorities set forth in the Waterfall Classes described above. If no such Qualifying DWSD transaction occurs within the prescribed time period, the trust will terminate and expire.

Note 9 - City of Detroit Bankruptcy and Significant Events Occurring Subsequent to June 30, 2014 (Continued)

Impact of Bankruptcy on the City's Total Pension Liability and the Net Pension Liability

Based on the terms of the agreement in the City of Detroit's Bankruptcy approved on December 10, 2014, as explained above, future cost-of-living adjustments were reduced by 55 percent. The impact on the Total Pension Liability as of June 30, 2014 of these changes is a decrease of $540,232,272. As a result, on a postbankruptcy basis, the City's total pension liability is estimated to be $3,867,555,773 and the net pension liability is estimated to be $591,352,474. The same assumptions utilized in the calculations of the total pension liability as of June 30, 2014 on a prebankruptcy basis, as disclosed in Note 6, were utilized to determine these postbankruptcy amounts. The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments (7.2 percent) was applied to all periods of projected benefit payments to determine the total pension liability.

Required Supplemental Information

Required Supplemental Information
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Fiscal Year

(Schedule is built prospectively upon implementation of GASB Statement No. 67)

	2014
Total Pension Liability	
Service cost	$ 34,967,708
Interest	304,737,369
Changes in benefit terms	(102,236,878)
Differences between expected and actual experience	-
Changes in assumptions	540,356,835
Benefit payments, including refunds	(323,540,473)
Net Change in Total Pension Liability	454,284,561
Total Pension Liability - Beginning of year	3,953,503,484
Total Pension Liability - End of the year	**$4,407,788,045**
Plan Fiduciary Net Position	
Contributions - Employer	$ -
Contributions - Member	7,783,141
Net investment income	568,760,793
Administrative expenses	(11,373,226)
Benefit payments, including refunds	(323,540,473)
Other	-
Net Change in Plan Fiduciary Net Position	241,630,235
Plan Fiduciary Net Position - Beginning of year	3,034,573,064
Plan Fiduciary Net Position - End of year	**$3,276,203,299**
System's Net Pension Liability - Ending	**$1,131,584,746**
Plan Fiduciary Net Position as a Percent of Total Pension Liability	74.33 %
Covered Employee Payroll	$ 157,622,578
System's Net Pension Liability as a Percent of Covered Employee Payroll	717.9 %

Required Supplemental Information
Schedule of City Contributions
Last Ten Fiscal Years

	2014**	2013**	2012**	2011	2010*	2009*	2008*	2007	2006	2005
Actuarially determined contribution	$ 50,642,443	$ 42,005,173	$ 49,760,229	$ 81,642,112	$ 57,808,485	$ 61,151,057	$ 58,934,636	$ 57,423,366	$ 57,807,332	$ 51,604,596
Contributions in relation to the actuarially determined contribution	-	-	20,733,429	81,642,112	32,808,485	36,151,057	41,113,934	57,423,366	57,807,332	51,604,596
Contribution deficiency	**$ 50,642,443**	**$ 42,005,173**	**$ 29,026,800**	**$ -**	**$ 25,000,000**	**$ 25,000,000**	**$ 17,820,702**	**$ -**	**$ -**	**$ -**
Covered employee payroll	$ 165,552,280	$ 186,694,166	$ 205,800,278	$ 220,461,691	$ 228,829,999	$ 231,795,528	$ 232,812,606	$ 230,173,964	$ 228,140,160	$ 250,491,872
Contributions as a percentage of covered employee payroll	- %	- %	10.1 %	37.0 %	14.3 %	15.5 %	17.7 %	25.0 %	25.3 %	20.6 %

* 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, 2014, a portion of the 6/30/2012 annual required contribution and the entire 6/30/2013 and 6/30/2014 annual required contribution has not been paid and has not been recognized as revenue.

Notes to Schedule of System Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for fiscal year 2014 were determined based upon an actuarial valuation as of June 30, 2012. The most recent valuation is as of June 30, 2013.
Methods and assumptions used to determine contribution rates	
Actuarial cost method	Entry-age
Amortization method	Level dollar, closed
Remaining amortization period	28 years
Asset valuation method	7-year smoothed market, 30% corridor
Inflation	0% for one year, 4.0% thereafter
Salary increases	5.0% - 9.2%
Investment rate of return	8.0%
Retirement age	Experience-based table of rates are specific to the type of eligibility condition.
Mortality	95% of the RP-2000 Combined Table for males and 100% of the RP-2000 Combined Table set back 2 years for females
Other information	Cost-of-living adjustments are 2.25% of original pension amounts at retirement for certain plan members.

Required Supplemental Information
Schedule of Investment Returns
Last Fiscal Year

	2014*
Annual money weighted rate of return, net of investment expense	19.8 %

* GASB Statement No. 67 was implemented June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

Benefit Changes

As of June 30, 2014, the pension plan is frozen. No new employees are allowed to participate in the plan. All benefits for actives are frozen as of June 30, 2014 based on service and average final compensation accrued as of that date.

Changes in Assumptions

The discount rate used to calculate the June 30, 2014 total pension liability was 7.2 percent. The discount rate used to calculate the total pension liability as of June 30, 2013 was 8 percent.

The mortality table used to measure retired life mortality is the RP-2014 Blue Collar Annuitant Table for males and females. Pre-retirement mortality is the RP-2014 Blue Collar Employee Tables for males and females. Both of these tables were first used as of June 30, 2014. For June 30, 2013, 95 percent of the RP-2000 Combined Table for males and 100 percent of the RP-2000 Combined Table set back 2 years for females was used.