

**CITY OF YPSILANTI, MICHIGAN  
POLICE AND FIRE  
RETIREMENT SYSTEM**

**Financial Statements  
And  
Supplementary Information**

**For the Year Ended  
June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF YPSILANTI, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

December 19, 2008

To the Retirement Board  
City of Ypsilanti, Michigan  
Police and Fire Retirement System  
Ypsilanti, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Ypsilanti, Michigan Police and Fire Retirement System*** as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the City of Ypsilanti, Michigan Police and Fire Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Ypsilanti, Michigan in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Ypsilanti, Michigan Police and Fire Retirement System as of June 30, 2008 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The historical pension information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Ypsilanti, Michigan Police and Fire Retirement System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

# **FINANCIAL STATEMENTS**

**CITY OF YPSILANTI, MICHIGAN**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**Statements of Plan Net Assets**  
**June 30, 2008**

**Assets**

Cash and cash equivalents		\$ 2,051,731
Investments, at fair value:		
U.S. agencies	\$ 3,560,823	
Foreign government bonds	44,410	
Corporate bonds	4,214,143	
Bond mutual fund	6,846,636	
Domestic equities	12,106,020	
International equities	392,880	
Domestic real estate investment trusts	728,514	
Money market	<u>670,647</u>	
Total investments		28,564,073
Accounts receivable		<u>12,849</u>
<b>Net assets held in trust for pension benefits</b> <b>(a schedule of funding progress is</b> <b>presented on page 11)</b>		<b><u><u>\$ 30,628,653</u></u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF YPSILANTI, MICHIGAN**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**Statements of Changes in Plan Net Assets**  
**For the Year Ended June 30, 2008**

**Additions**

Investment income:	
Net depreciation in fair value of investments	\$ (2,689,457)
Interest and dividends	<u>1,145,317</u>
Total investment loss	(1,544,140)
Investment management fees	<u>(108,623)</u>
Total net investment loss	<u>(1,652,763)</u>
Contributions:	
Employer	941,417
Employee	<u>418,956</u>
Total contributions	<u>1,360,373</u>
Total additions (net investment loss in excess of contributions)	<u>(292,390)</u>

**Deductions**

Participant benefits	2,014,793
Participant refunds	623,728
Administrative expenses	<u>45,436</u>
Total deductions	<u>2,683,957</u>
Change in net assets held in trust for benefits	(2,976,347)
Net assets held in trust for pension benefits, beginning of year	<u>33,605,000</u>
<b>Net assets held in trust for pension benefits, end of year</b>	<b><u><u>\$ 30,628,653</u></u></b>

The accompanying notes are an integral part of these financial statements.

# CITY OF YPSILANTI, MICHIGAN

## Police and Fire Retirement System

### Notes To Financial Statements

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#### 1. PLAN DESCRIPTION

The City of Ypsilanti, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit contributory pension plan which provides retirement, disability, death and their beneficiaries in accordance with the City of Ypsilanti’s (the “City”) pension ordinance. The System covers all police and fire employees of the City.

System membership consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	93
Terminated employees entitled to but not yet receiving benefits	4
Vested active participants	<u>60</u>
<b>Total</b>	<b><u>157</u></b>

Plan members are required to contribute 10% of their annual covered wages to the System for pension benefits. The City contributes such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution for the year ended June 30, 2008 represented 21.95% of the annual covered payroll.

The System is administered by the Retirement Board of the City of Ypsilanti, Michigan Police and Fire Retirement System. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Retirement Board and City of Ypsilanti City Council.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The System’s financial statements are prepared on the accrual basis of accounting. Employee contributions are recognized in the period in which they are due. The City’s contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**CITY OF YPSILANTI, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

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**Valuation of Investments and Income Recognition** - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments, if any, is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

**Administration** - Administrative costs are financed through the System's earnings.

**3. DEPOSITS AND INVESTMENTS**

**Deposits** - The System cash and cash equivalents consist of amounts deposited in the City's cash management pool of demand deposit accounts and certificates of deposit. As such, it is not practicable to present separate custodial risk disclosures for the System's portion of this pool; accordingly, please refer to the City of Ypsilanti's comprehensive annual financial report for custodial risk disclosures of deposits.

**Investments** - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

Following is a summary of the System's investments as of June 30, 2008:

**Investments at fair value, as determined by  
quoted market price:**

U.S. agencies	\$ 3,560,823
Foreign government bonds	44,410
Corporate bonds	4,214,143
Bond mutual fund	6,846,636
Domestic equities	12,106,020
International equities	392,880
Domestic real estate investment trusts	728,514
Money market accounts	<u>670,647</u>
<b>Total investments</b>	<b><u><u>\$ 28,564,073</u></u></b>

**CITY OF YPSILANTI, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

*Credit Risk.* The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2008, the System's investments in corporate securities were rated by Moody's Investor Services as follows:

<u>Rating</u>	<u>U.S. agencies</u>	<u>Corporate</u>
Aaa	\$ 3,560,823	\$ 195,586
Aa1	-	206,912
Aa3	-	821,821
A1	-	487,613
A2	-	1,001,243
A3	-	207,236
Baa1	-	442,323
Baa2	-	644,717
Baa3	-	206,692
	<u>\$ 3,560,823</u>	<u>\$ 4,214,143</u>

The System's policy regarding credit risk provides that a minimum of 70% of fixed income investments must be in the top three major grades as determined by Moody's and the balance must be in the top four major grades.

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name. Short-term investments in money market funds are not subject to custodial credit risk.

*Concentration of Credit Risk.* At year end, the investment portfolio was concentrated (i.e., had holdings in any one issue greater than 5% of the total investment portfolio) as follows:

<u>U.S. agencies</u>	<u>% of portfolio</u>
Federal Home Loan Mortgage Corporation	5.3%
Federal National Mortgage Association	7.2%

**CITY OF YPSILANTI, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

The System's policy regarding concentration of credit risk does not specify limits regarding concentration of credit risk, although it provides guidelines regarding targets maximums for investment types.

*Interest Rate Risk.* As of June 30, 2008, maturities of the System's debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			More Than 10
		Less Than 1	1-5	6-10	
U.S. agencies	\$ 3,560,823	\$ -	\$ -	\$ 148,324	\$3,412,499
Corporate	4,214,143	250,343	2,000,209	500,401	1,463,190
	\$ 7,774,966	\$ 250,343	\$ 2,000,209	\$ 648,725	\$4,875,689

None of the above securities are callable. The System's policy regarding interest rate risk provides that fixed income maturities may not exceed 30 years; the Systems holdings comply with this requirement.

*Foreign Currency Risk.* Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The System's exposure to foreign currency risk is summarized as follows:

Investment/ Country	Currency	Fair value (in USD)
<b>Foreign government bonds</b>		
Puerto Rico	United States dollar	\$ 44,410
<b>International equities</b>		
Canada	Canadian dollar	654
Cayman Islands	Cayman Island dollar	65,674
Israel	Israeli new shekel	100,124
Netherlands	European euro	40,855
Puerto Rico	United States dollar	23,065
Singapore	Singapore dollar	102,620
United Kingdom	British pound	59,888
		392,880
<b>Total</b>		\$ 437,290

**CITY OF YPSILANTI, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

The System has no policies regarding foreign currency risk and, therefore, relies on State statutes which allow for foreign investments but place no specific limitations thereon.

**4. ANNUAL REQUIRED CONTRIBUTION**

The annual required contribution (ARC) for the year ended June 30, 2008 was \$941,417. The ARC was made by the City. There was no net pension obligation at the beginning or the end of the fiscal year. The ARC was determined as part of an actuarial valuation as of June 30, 2007, using the entry age cost method.

**Three-Year Trend Information**

<b><u>Years Ended June 30,</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
2006	\$ 500,602	100%	\$ -
2007	730,106	100%	-
2008	941,417	100%	-

**5. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of the pension portion of the System as of June 30, 2007, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	(1)	\$ 36,211,916	
Actuarial value of assets	(2)	32,056,915	
Unfunded AAL (UAAL)	(3)	\$ 4,155,001	(1) - (2)
 Funded ratio	 (4)	 88.5%	 (2) / (1)
 Covered payroll	 (5)	 \$ 3,957,733	
 UAAL as % of covered payroll	 (6)	 105.0%	 (2) / (5)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress,

**CITY OF YPSILANTI, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

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presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of June 30, 2007, the date of the latest actuarial valuation using the entry age actuarial cost method, includes:

Amortization method	Level percent-of-payroll
Remaining amortization period	30 year open
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.5% to 15.0%
Assume rate of payroll growth	4.5%
Cost-of-living adjustments	None

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

**5. RISK MANAGEMENT**

The System's exposure to noninvestment loss is minimal. The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the Michigan Municipal League risk pool program for all of these exposures.

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**GASB REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF YPSILANTI, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM**

**Required Supplementary Information**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (Overfunded) (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
2001	\$ 34,479,264	\$ 26,933,083	\$ (7,546,181)	128.0%	\$ 3,813,904	-197.9%
2002	34,970,658	27,899,273	(7,071,385)	125.3%	3,858,409	-183.3%
2003	33,916,996	29,020,485	(4,896,511)	116.9%	4,003,846	-122.3%
2004	32,569,762	31,251,133	(1,318,629)	104.2%	3,891,478	-33.9%
2005	31,180,708	32,774,898	1,594,190	95.1%	4,042,199	39.4%
2006	30,843,790	34,980,132	4,136,342	88.2%	3,996,679	103.5%
2007	32,056,915	36,211,916	4,155,001	88.5%	3,957,733	105.0%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2002	\$ -	\$ -	100.00%
2003	-	-	100.00%
2004	-	-	100.00%
2005	-	-	100.00%
2006	500,602	500,602	100.00%
2007	730,103	730,103	100.00%
2008	941,417	941,417	100.00%

**OTHER SUPPLEMENTARY  
INFORMATION**

**CITY OF YPSILANTI, MICHIGAN**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**Schedule of Changes in Components of Net Assets**  
**For the Year Ended June 30, 2008**

	<u>Employer</u>	<u>Reserved for</u>	<u>Benefit</u>	
	<u>Contributions</u>	<u>Employee</u>	<u>Payments</u>	<u>Totals</u>
		<u>Contributions</u>		
<b>Additions</b>				
Employee contributions	\$ -	\$ 418,956	\$ -	\$ 418,956
Employer contributions	941,417	-	-	941,417
Net realized gains and depreciation in fair value of investments	(1,544,140)	-	-	(1,544,140)
Investment expenses	(108,623)	-	-	(108,623)
<b>Total additions</b>	<u>(711,346)</u>	<u>418,956</u>	<u>-</u>	<u>(292,390)</u>
<b>Deductions</b>				
Benefit payments	-	-	(2,014,793)	(2,014,793)
Administrative expenses	(45,436)	-	-	(45,436)
Refunds	-	(623,728)	-	(623,728)
<b>Total deductions</b>	<u>(45,436)</u>	<u>(623,728)</u>	<u>(2,014,793)</u>	<u>(2,683,957)</u>
<b>Transfers</b>				
Employee	(2,481,518)	-	2,481,518	-
Other	(997,505)	-	997,505	-
Interest	(1,613,807)	98,470	1,515,337	-
<b>Total transfers</b>	<u>(5,092,830)</u>	<u>98,470</u>	<u>4,994,360</u>	<u>-</u>
Net change in reserve balances	(5,849,612)	(106,302)	2,979,567	(2,976,347)
Reserve balances, beginning of year	10,586,750	4,808,648	18,209,602	33,605,000
<b>Reserve balances, end of year</b>	<u>\$ 4,737,138</u>	<u>\$ 4,702,346</u>	<u>\$ 21,189,169</u>	<u>\$30,628,653</u>