

City of Ypsilanti, Michigan Police and Fire Retirement System

For the Years
Ended June 30,
2012 and 2011

Financial
Statements

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM
For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

December 17, 2012

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

We have audited the accompanying statements of plan net assets of the *City of Ypsilanti, Michigan Police and Fire Retirement System* as of June 30, 2012 and 2011, and the related statement of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2012 and 2011, and the changes in plan net assets thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and contributions 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, who 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 supplementary 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.



FINANCIAL STATEMENTS

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Statements of Plan Net Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Investments, at fair value:		
U.S. agencies	\$ 2,627,535	\$ 3,066,009
Corporate bonds	4,543,264	4,164,439
Domestic equities	11,711,091	12,271,057
International equities	775,182	867,382
American depository receipts	44,275	51,907
Mutual funds	5,542,060	6,755,825
Domestic real estate investment trusts	460,027	425,344
Money market accounts	781,689	810,311
Total investments	<u>26,485,123</u>	<u>28,412,274</u>
Cash and cash equivalents	1,382,576	2,705,149
Accrued interest receivable	<u>-</u>	<u>883</u>
Total assets	27,867,699	31,118,306
Liabilities		
Accounts payable	<u>916,019</u>	<u>391,900</u>
Net assets held in trust for pension benefits	<u>\$ 26,951,680</u>	<u>\$ 30,726,406</u>

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 Years Ended June 30, 2012 and 2011

	2012	2011
Additions		
Investment income:		
Net appreciation (depreciation) in fair value of investments	\$ (1,331,612)	\$ 4,535,994
Interest and dividends	939,246	758,066
	<u>(392,366)</u>	<u>5,294,060</u>
Total investment income	(392,366)	5,294,060
Less investment management fees	<u>(83,575)</u>	<u>(90,776)</u>
Total net investment income	<u>(475,941)</u>	<u>5,203,284</u>
Contributions:		
Employer	1,120,305	1,018,284
Employees	357,684	374,961
	<u>1,477,989</u>	<u>1,393,245</u>
Total contributions	1,477,989	1,393,245
Total additions	<u>1,002,048</u>	<u>6,596,529</u>
Deductions		
Participant benefits	2,679,538	2,363,626
Participant refunds	2,051,656	337,937
Administrative expenses	45,580	56,086
	<u>4,776,774</u>	<u>2,757,649</u>
Total deductions	4,776,774	2,757,649
Change in net assets held in trust for benefits	<u>(3,774,726)</u>	<u>3,838,880</u>
Net assets held in trust for pension benefits, beginning of year	<u>30,726,406</u>	<u>26,887,526</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 26,951,680</u>	<u>\$ 30,726,406</u>

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

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

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 and death benefits to plan members and their beneficiaries in accordance with the City of Ypsilanti's pension ordinance. The System covers all police and fire employees of the City.

System membership consisted of the following at June 30:

	2012	2011
Retirees and beneficiaries receiving benefits	107	99
Terminated employee entitled to but not yet receiving benefits	-	3
Active employees	<u>46</u>	<u>54</u>
Total	<u>153</u>	<u>156</u>

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, 2012 represented 27.91% of the annual covered payroll. The City's pension contribution for the year ended June 30, 2011 represented 25.64% 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

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 as determined by the custodian under the direction of the Retirement Board with the assistance of a valuation service.

Administration

Administrative costs are financed through the System's earnings.

3. DEPOSITS AND INVESTMENTS

Deposits

The System's 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:

	2012	2011
Investments at fair value, as determined by quoted market price:		
U.S agencies	\$ 2,627,535	\$ 3,066,009
Corporate bonds	4,543,264	4,164,439
Domestic equities	11,711,091	12,271,057
International equities	775,182	867,382
American depository receipts	44,275	51,907
Mutual funds	5,542,060	6,755,825
Domestic real estate investment trusts	460,027	425,344
Money market accounts	781,689	810,311
Total investments	\$ 26,485,123	\$ 28,412,274

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. The System’s investments in U.S. agencies were rated Aaa by Moody’s Investor Services at both June 30, 2012 and 2011. The System’s investments in corporate securities were rated by Moody’s Investor Services as follows at June 30:

Rating	2012	2011
Aa2	\$ -	\$ 220,873
Aa3	346,400	311,255
A1	503,900	242,914
A2	1,165,630	929,332
A3	689,990	671,804
Baa1	-	223,482
Baa2	1,135,043	640,430
Baa3	430,278	659,484
Ba1	272,023	264,865
	<u>\$ 4,543,264</u>	<u>\$ 4,164,439</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. Concentration of credit risk is the risk of loss attributed to the magnitude of the System’s investment in a single issuer. The System’s policy regarding concentration of credit risk does not specify limits regarding concentration of credit risk, although it provides guidelines regarding target maximums for investment types.

At June 30, 2012, the investment portfolio was concentrated (i.e., had holdings in any one issue greater than 5% of the total investment portfolio) as follows:

	% of portfolio
U.S. agencies	
Federal Home Loan Mortgage Corporation	5.2%

At June 30, 2011, the investment portfolio was concentrated as follows:

	% of portfolio
U.S. agencies	
Federal Home Loan Mortgage Corporation	5.3%

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy requires a maximum term to maturity of 30 years for any single fixed income security. The System's investment policy does not address weighted average portfolio maturities.

As of June 30, 2012, maturities of the System's debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. agencies	\$ 2,627,535	\$ -	\$ -	\$ 43,466	\$ 2,584,069
Corporate bonds	4,543,264	613,150	1,558,785	882,139	1,489,190
	<u>\$ 7,170,799</u>	<u>\$ 613,150</u>	<u>\$ 1,558,785</u>	<u>\$ 925,605</u>	<u>\$ 4,073,259</u>

As of June 30, 2011, maturities of the System's debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. agencies	\$ 3,066,009	\$ -	\$ -	\$ 62,904	\$ 3,003,105
Corporate bonds	4,164,439	-	1,485,930	1,542,647	1,135,862
	<u>\$ 7,230,448</u>	<u>\$ -</u>	<u>\$ 1,485,930</u>	<u>\$ 1,605,551</u>	<u>\$ 4,138,967</u>

Of the above corporate bonds, \$209,658 of the total is callable August 15, 2021 with a maturity date of November 15, 2021. The System's policy regarding interest rate risk provides that fixed income maturities may not exceed 30 years; the System's 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 at June 30:

Investment/ Country	Currency	Fair value (U.S. dollars)	
		2012	2011
International equities			
Cayman Islands	Cayman Island dollar	\$ 51,677	\$ 57,943
France	European euro	69,381	91,413
Ireland	European euro	149,131	194,455
Netherlands	European euro	312,342	345,746
Puerto Rico	U.S. dollar	42,722	68,685
Switzerland	Swiss franc	48,050	-
Canada	Canadian dollar	60,339	-
Singapore	Singapore dollar	41,540	109,140
Total		<u>\$ 775,182</u>	<u>\$ 867,382</u>

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

In addition to the above, the System's holdings in mutual funds are primarily composed of underlying investments in international equities (approximately 67% of total mutual fund holdings of \$5,542,060), predominately in Japanese, European and other Asian companies. The residual mutual fund underlying investments are in gold, cash and cash equivalents, international bonds and U.S. equities.

The System restricts the amount of investment in foreign currency-denominated investments to 20% of total pension system investment.

4. ANNUAL REQUIRED CONTRIBUTION

The annual required contribution (ARC) for the year ended June 30, 2012 and 2011 was \$1,120,305 and \$1,018,284, respectively. The ARC was made by the City. There was no net pension obligation at the beginning or the end of either fiscal year. The respective ARC was determined as part of an actuarial valuation as of June 30, 2011 and 2010, using the entry age cost method.

Three-Year Trend Information

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2010	\$ 968,212	100%	-
2011	1,018,284	100%	-
2012	1,120,305	100%	-

5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2011, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 42,667,144
Actuarial value of assets	31,577,876
Unfunded AAL (UAAL)	<u>\$ 11,089,268</u>
Funded ratio	<u>74.0%</u>
Covered payroll	<u>\$ 3,892,132</u>
UAAL as % of covered payroll	<u>284.9%</u>

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.

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

The schedule of funding progress, 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, 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 the 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, 2011, the date of the latest actuarial valuation using the entry age actuarial cost method, includes:

Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.0%
Assume rate of payroll growth	4.0%
Cost-of-living adjustments	None

6. 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.



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)
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	34,292,073	36,211,916	1,919,843	94.7%	3,957,733	48.5%
2008	32,934,094	37,869,913	4,935,819	87.0%	3,843,177	128.4%
2009	32,472,100	39,453,312	6,981,212	82.3%	3,889,397	179.5%
2010	31,649,135	42,135,741	10,486,606	75.1%	3,975,109	263.8%
2011	31,577,876	42,667,144	11,089,268	74.0%	3,892,132	284.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2003	\$ -	\$ -	100%
2004	-	-	100%
2005	-	-	100%
2006	500,602	500,602	100%
2007	730,106	730,106	100%
2008	941,417	941,417	100%
2009	946,937	946,937	100%
2010	968,212	968,212	100%
2011	1,018,284	1,018,284	100%
2012	1,120,305	1,120,305	100%