

**City of Ypsilanti, Michigan
Police and Fire Retirement System**

FINANCIAL STATEMENTS

June 30, 2013 and 2012

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM
For the Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Ypsilanti, Michigan Police and Fire Retirement System (the System) as of and for the year ended June 30, 2013, and the related notes to the 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 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 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 misstatements 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Ypsilanti, Michigan Police and Fire Retirement System as of June 30, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Ypsilanti, Michigan Police and Fire Retirement System, and do not purport to, and do not, present fairly the financial position of the City of Ypsilanti, Michigan as of June 30, 2013, and the changes in its financial position, or, where applicable, its cash flows thereof and the budgetary comparison schedule for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the City of Ypsilanti, Michigan Police and Fire Retirement System as of June 30, 2012, were audited by other auditors whose report dated December 17, 2012, expressed an unmodified opinion on those statements.

Changes in Accounting Principles

During the year the System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statement No. 63 and GASB Statement No. 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the historical pension 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, 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 2, 2013

FINANCIAL STATEMENTS

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Statements of Plan Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Investments, at fair value:		
U.S. agencies	\$ 2,130,052	\$ 2,627,535
Corporate bonds	4,730,860	4,543,264
Domestic equities	13,211,266	11,711,091
International equities	868,845	775,182
American depository receipts	-	44,275
Mutual funds	5,536,015	5,542,060
Domestic real estate investment trusts	489,340	460,027
Money market accounts	553,302	781,689
Total investments	<u>27,519,680</u>	<u>26,485,123</u>
Cash and cash equivalents	<u>1,380,434</u>	<u>1,382,576</u>
Total assets	28,900,114	27,867,699
Liabilities		
Accounts payable	<u>780,400</u>	<u>916,019</u>
Net position held in trust for pension benefits	<u>\$ 28,119,714</u>	<u>\$ 26,951,680</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 Position

For the Years Ended June 30, 2013 and 2012

	2013	2012
Additions		
Investment income:		
Net appreciation (depreciation) in fair value of investments	\$ 2,553,509	\$ (1,331,612)
Interest and dividends	751,395	939,246
	<hr/>	<hr/>
Total investment income	3,304,904	(392,366)
Less investment management fees	(101,330)	(83,575)
	<hr/>	<hr/>
Total net investment income	3,203,574	(475,941)
Contributions:		
Employer	1,222,085	1,120,305
Employees	303,679	357,684
	<hr/>	<hr/>
Total contributions	1,525,764	1,477,989
Total additions	<hr/> 4,729,338	<hr/> 1,002,048
Deductions		
Participant benefits	3,106,675	2,679,538
Participant refunds	379,667	2,051,656
Administrative expenses	74,962	45,580
	<hr/>	<hr/>
Total deductions	<hr/> 3,561,304	<hr/> 4,776,774
Change in net position	1,168,034	(3,774,726)
Net position held in trust for pension benefits, beginning of year	<hr/> 26,951,680	<hr/> 30,726,406
Net position held in trust for pension benefits, end of year	<hr/> \$ 28,119,714	<hr/> \$ 26,951,680

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:

	2013	2012
Retirees and beneficiaries receiving benefits	113	107
Terminated employee entitled to but not yet receiving benefits	1	-
Active employees	<u>39</u>	<u>46</u>
Total	<u>153</u>	<u>153</u>

Plan members hired prior to July 1, 2009 are required to contribute 10% of their annual covered wages to the System for pension benefits. Plan members hired after July 1, 2009 are required to contribute 5% 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, 2013 represented 35.81% of the annual covered payroll. The City's pension contribution for the year ended June 30, 2012 represented 27.91% 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.

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.

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

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:

	2013	2012
Investments at fair value, as determined by quoted market price:		
U.S agencies	\$ 2,130,052	\$ 2,627,535
Corporate bonds	4,730,860	4,543,264
Domestic equities	13,211,266	11,711,091
International equities	868,845	775,182
American depository receipts	-	44,275
Mutual funds	5,536,015	5,542,060
Domestic real estate investment trusts	489,340	460,027
Money market accounts	553,302	781,689
Total investments	\$ 27,519,680	\$ 26,485,123

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, 2013 and 2012. The System’s investments in corporate securities were rated by Moody’s Investor Services as follows at June 30:

Rating	2013	2012
Aa3	\$ 328,473	\$ 346,400
A1	631,826	503,900
A2	1,155,343	1,165,630
A3	784,837	689,990
Baa1	184,936	-
Baa2	1,645,445	1,135,043
Baa3	-	430,278
Ba1	-	272,023
	<u>\$ 4,730,860</u>	<u>\$ 4,543,264</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, 2013, the investment portfolio did not have holdings in any one issue greater than 5% of the total investment portfolio.

At June 30, 2012, the investment portfolio was concentrated as follows:

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

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, 2013, maturities of the System's debt securities were as follows:

	Investment Maturities (fair value by years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. agencies	\$ 2,130,052	\$ -	\$ 27,653	\$ -	\$ 2,102,399
Corporate bonds	4,730,860	-	2,185,642	1,723,379	821,839
	<u>\$ 6,860,912</u>	<u>\$ -</u>	<u>\$ 2,213,295</u>	<u>\$ 1,723,379</u>	<u>\$ 2,924,238</u>

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

	Investment Maturities (fair value by years)				
	Fair Value	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>

Of the above corporate bonds, \$202,882 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.

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

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)	
		2013	2012
International equities			
Cayman Islands	Cayman Island dollar	\$ 83,984	\$ 51,677
France	European euro	-	69,381
Ireland	European euro	70,258	149,131
Great Britain	British pound	52,307	-
Netherlands	European euro	226,752	312,342
Netherlands Antilles	Guilder	96,741	-
Puerto Rico	U.S. dollar	-	42,722
Switzerland	Swiss franc	48,854	48,050
Taiwan	Taiwan dollar	176,330	-
Canada	Canadian dollar	113,619	60,339
Singapore	Singapore dollar	-	41,540
Total		\$ 868,845	\$ 775,182

In addition to the above, the System's holdings in mutual funds are primarily composed of underlying investments in international equities (approximately 16% of total mutual fund holdings of \$5,536,015), 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, 2013 and 2012 was \$1,222,085 and \$1,120,305, 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, 2012 and 2011, using the entry age cost method.

Three-Year Trend Information

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2011	\$ 1,018,284	100%	-
2012	1,120,305	100%	-
2013	1,222,085	100%	-

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2012, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 43,258,880
Actuarial value of assets	<u>28,530,067</u>
Unfunded AAL (UAAL)	<u>\$ 14,728,813</u>
Funded ratio	<u>66.0%</u>
Covered payroll	<u>\$ 3,412,398</u>
UAAL as % of covered payroll	<u>431.6%</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.

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.

CITY OF YPSILANTI, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

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, 2012, 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% - 9.0%
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 June 30,	(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)
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%
2012	28,530,067	43,258,880	14,728,813	66.0%	3,412,398	431.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
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%
2013	1,222,085	1,222,085	100%