

**INDEPENDENT AUDITOR'S
REPORT**

*to all active members & retirees of the
General Retirement System of the City of Detroit*

The financial statements of the General Retirement System of the City of Detroit have been audited by the independent auditing firm of Plante Moran. Plante Moran's report is available for review on the Retirement System's web site, www.rscd.org. Copies of the report can be obtained by a request, in writing, to the Retirement System's Office.

STATEMENT OF NET ASSETS AVAILABLE FOR PENSION BENEFITS

| ASSETS | 2002 | 2001 |
|---|------------------------|------------------------|
| Cash | \$8,450,617 | \$2,819,153 |
| Investment, at market value | 2,427,492,366 | 2,704,046,265 |
| Accrued Investment Income | 12,619,216 | 13,584,240 |
| Contributions Receivable | 2,070,744 | 4,323,523 |
| Receivables from Investment Sales | 127,023,352 | 199,933,603 |
| Other Accounts Receivable | 96,854 | 422,874 |
| Capital Assets | 822,110 | 0 |
| TOTAL ASSETS | \$2,578,575,259 | \$2,925,129,658 |
| LIABILITIES | | |
| Payables for Investment Purchases | 155,311,835 | 200,208,104 |
| Claims Payable to Retirants and Beneficiaries | 2,471,860 | 2,332,160 |
| Accrued Pension Benefits | 0 | 0 |
| Due to Other Funds | 1,677,019 | 1,515,915 |
| Other Liabilities | 29,117,854 | 30,067,397 |
| TOTAL LIABILITIES | \$188,578,568 | \$234,123,576 |
| FUND BALANCES | | |
| Annuity Reserves: | | |
| Annuity Savings Fund | 705,617,753 | 720,801,263 |
| Annuity Reserve Fund | 26,351,773 | 24,085,096 |
| Pension Reserves: | | |
| Pension Accumulation Fund | 688,208,292 | 942,566,848 |
| Pension Reserve Fund | 1,341,025,861 | 1,224,693,181 |
| Market Stabilization Fund | (371,206,988) | (221,140,306) |
| TOTAL FUND BALANCES | \$2,389,996,691 | \$2,691,006,082 |
| TOTAL LIABILITIES & FUND BALANCES | \$2,578,575,259 | \$2,925,129,658 |

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

| | <u>ANNUITY RESERVES</u> | | | <u>PENSION RESERVES</u> | | <u>TOTAL</u> | |
|--|-------------------------|----------------------|---------------------------|---------------------------|------------------------|------------------------|------------------------|
| | ANNUITY SAVINGS FUND | ANNUITY RESERVE FUND | MARKET STABILIZATION FUND | PENSION ACCUMULATION FUND | PENSION RESERVE FUND | 2002 | 2001 |
| Revenues: | | | | | | | |
| City Contributions | \$0 | \$0 | \$0 | \$67,791,488 | \$0 | \$67,791,488 | \$68,139,535 |
| Members' Contributions | 25,426,515 | 0 | 0 | 55,770 | 0 | 25,482,285 | 25,478,661 |
| Investment Income-Net | 51,962,374 | 1,945,907 | (150,066,682) | (150,954,623) | 91,542,219 | (155,570,805) | (128,078,532) |
| TOTAL REVENUES | 77,388,889 | 1,945,907 | (150,066,682) | (83,107,365) | 91,542,219 | (62,297,032) | (34,460,336) |
| Expenses: | | | | | | | |
| Pension & Annuity Benefits | 0 | 3,369,057 | 0 | 0 | 141,732,349 | 145,101,406 | 136,003,903 |
| General & Administrative Expenses | 0 | 0 | 0 | 3,540,242 | 0 | 3,540,242 | 3,149,697 |
| Refunds | 89,114,425 | 0 | 0 | 956,286 | 0 | 90,070,711 | 83,171,058 |
| TOTAL EXPENSES | 89,114,425 | 3,369,057 | 0 | 4,496,528 | 141,732,349 | 238,712,359 | 222,324,658 |
| Excess (Deficiency) of Revenue Over | | | | | | | |
| (Under) Expenses | (11,725,536) | (1,423,150) | (150,066,682) | (87,603,893) | (50,190,130) | (301,009,391) | (256,784,994) |
| Transfers-Net | (3,457,974) | 3,689,827 | 0 | (166,754,663) | 166,522,810 | 0 | 0 |
| Fund Balances at | | | | | | | |
| Beginning of Year | 720,801,263 | 24,085,096 | (221,140,306) | 942,566,848 | 1,224,693,181 | 2,691,006,082 | 2,947,791,076 |
| FUND BALANCES AT END OF YEAR | \$705,617,753 | \$26,351,773 | \$(371,206,988) | \$688,208,292 | \$1,341,025,861 | \$2,389,996,691 | \$2,691,006,082 |

2001-2002 FISCAL YEAR INVESTMENT ACTIVITY

The General Retirement System is a relatively mature plan in that the number of active employees and retirees receiving benefits is approximately equal. The total benefits paid during the year were \$235,172,117. The investments of the system are the primary source of the funds used to pay these benefits. Accordingly, the investment activity and asset allocation must balance the desire for long term appreciation with relatively large requirements for cash to pay benefits every month.

The Board of Trustees has adopted the following goals and objectives which are designed to meet the 7.9% actuarial assumed rate of return for the fund:

- An 8.25% total return, net of investment management fees, coupled with a 3.9% real (inflation adjusted) return objective
- Total fund to consistently rank in the top half of total public fund universe and to meet or exceed policy index.
- Investment managers to consistently rank in the top half of appropriate public fund universe and to meet or exceed appropriate index
- Above average risk-adjusted returns, when compared to comparable funds

- Risk exposure of total fund to be centered in the mid-range of comparable total public funds.
- Results generally measured over a full market cycle, approximately 3-5 years.

The 2001-2002 fiscal year marks the second full year of the implementation of the Board's strategic policy decision to shift the asset allocation of the system to include a greater proportion of equities (stocks) and a lesser proportion of fixed income investments (bonds). The System's targeted asset allocation consists of 56% equities, 27% fixed income including cash and short term investments used to pay benefits, with the remaining 17% allocated to real estate and alternative investments.

During the 2001-2002 fiscal year, the System's targeted asset allocation and composition of investment management was essentially unchanged. One firm was added to manage small cap value equities. The Board maintained the scope and diversification of its real estate and alternative investment assets. Additional funds were committed to the System's best performing real state and alternative investment management firms.