

Police and Fire Retirement System of the City of Detroit

**Financial Report
with Supplemental Information
June 30, 2010**

Police and Fire Retirement System of the City of Detroit

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Statement of Plan Net Assets	7
Statement of Changes in Plan Net Assets	8
Notes to Financial Statements	9-22
Required Supplemental Information	23
Schedule of Analysis of Funding Progress	24
Schedule of Employer Contributions	25
Other Supplemental Information	26
Description of Funds	27
Statement of Changes in Plan Net Assets by Fund	28-29



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Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Police and Fire Retirement System of the City of Detroit (the "System") as of June 30, 2010 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2009 financial statements and, in our report dated December 14, 2009, we expressed an unqualified opinion on those financial statements.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient audit evidence supporting approximately \$103,000,000 of the System's alternative investments held at June 30, 2010, mostly related to real estate and pooled investments.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient audit evidence supporting the above-mentioned investments at June 30, 2010, the financial statements referred to above present fairly, in all material respects, the financial position of the Police and Fire Retirement System of the City of Detroit as of June 30, 2010 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental 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 required supplemental information. However, we did not audit the information and express no opinion on it.

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

As explained in Note 1, the financial statements include investments valued at approximately \$835,000,000 (28 percent of net assets) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods which may include information provided by investment managers, general partners, real estate advisors, and other means.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Police and Fire Retirement System of the City of Detroit's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement of changes in plan net assets by fund included in other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 14, 2010

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis

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 and other 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 sections of required and other supplemental information that further explain and support 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, 2010	June 30, 2009	June 30, 2008
Total assets	\$ 3,474,676,111	\$ 3,661,876,658	\$ 4,992,704,319
Total liabilities	<u>456,726,876</u>	<u>609,716,040</u>	<u>1,018,055,585</u>
Assets held in trust for pension benefits	<u>\$ 3,017,949,235</u>	<u>\$ 3,052,160,618</u>	<u>\$ 3,974,648,734</u>
Net investment (loss) income	\$ 205,398,053	\$ (712,999,787)	\$ (300,049,097)
Contributions:			
Employee	10,764,969	10,902,956	10,299,360
Employer	<u>32,808,485</u>	<u>36,151,057</u>	<u>41,113,934</u>
Total contributions	43,573,454	47,054,013	51,413,294
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	251,671,929	239,744,214	231,623,462
Member annuity refunds and withdrawals	<u>27,252,643</u>	<u>12,395,300</u>	<u>22,304,141</u>
Total benefits paid	<u>278,924,572</u>	<u>252,139,514</u>	<u>253,927,603</u>
Benefits paid in excess of contributions	(235,351,118)	(205,085,501)	(202,514,309)
Ratio of benefits paid to contributions	6.4	5.4	4.9
Other expenses	<u>4,258,318</u>	<u>4,402,828</u>	<u>4,137,761</u>
Net (decrease) increase in net assets	<u>\$ (34,211,383)</u>	<u>\$ (922,488,116)</u>	<u>\$ (506,701,167)</u>

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Fund Overview, Membership, 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. 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 (the City of Detroit) and active members contribute to the System.

DPFRS is a relatively mature plan in that there are more retirees and beneficiaries receiving current benefits than active members. As of June 30, 2010, membership of the System consisted of 4,045 active members, 8,560 members receiving benefits, and 83 terminated plan members entitled to, but not yet receiving, benefits.

DPFRS is governed by an 11-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. Five 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 chief of police (or designee), and the fire commissioner (or designee).

Contributions to the System

Both the City of Detroit (employer) and active employees make regular contributions to the System. Basic pension and disability benefits are funded through employer and employee contributions plus investment earnings on those contributions.

The required employer contributions are 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.

Active employees contribute 5 percent of pay up to the date at which they are eligible for retirement. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. Employee annuity savings fund accounts are credited with investment earnings equal to the rate of return earned by the System subject to minimum earnings of 0 percent. An active employee may elect to withdraw his or her accumulated contributions plus investment earnings once he or she is eligible for retirement or upon completion of 25 years of service (DPOA and Fire equivalents at 20 years).

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Benefits Paid

The System exists to pay the benefits which its members have earned. DPFRS paid out \$279 million in benefits during the year consisting of \$252 million in benefits to retirees and beneficiaries plus \$27 million in refunds of annuity savings fund balances. This represents approximately 9.2 percent of the net assets of the System as of June 30, 2010. Employer and employee contributions were \$44 million or 1.4 percent of the assets 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.

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 Board's asset allocation as of June 30, 2010:

Equities	56.0%
Fixed income	27.5%
Real estate	7.0%
Alternative investments	8.0%
Cash	1.5%

State statutes impose 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.

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Investment Results

Effective with the fiscal year commencing July 1, 2003, DPFRS acquired the capability to calculate investment results on an AIMR-compliant, time-weighted, GIPS method basis. This capability 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 prior periods 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 AIMR-compliant, time-weighted, GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

Total Fund Composite

The DPFRS total fund composite return for the year was 16.9 percent. This was a turnaround from the prior two years of negative returns. Although negative returns are disappointing, periods of negative returns are nevertheless inevitable in the context of the System's allocation to equities. Returns for recent fiscal years ended June 30 are shown below:

2009	-14.8
2008	-6.3
2007	17.4
2006	11.5
2005	8.2
2004	15.0

Since June 30, 2010, the financial markets have continued their recovery. Management notes that the assets of the System have increased 7.5 percent for the quarter ended September 30, 2010.

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 City and employee contributions. If you have questions about this report, or need additional information, we welcome you to contact the System's offices.

Police and Fire Retirement System of the City of Detroit

Statement of Plan Net Assets June 30, 2010 (with comparative totals for June 30, 2009)

	2010	2009
Assets		
Cash and cash equivalents (Note 3)	\$ 6,152,965	\$ -
Investments - At fair value (Note 3):		
Short-term investments	80,552,840	9,030,732
Stocks	1,413,450,447	1,335,973,209
Bonds	585,261,541	623,343,397
Mortgage-backed securities	63,728,665	65,573,488
Mortgage and construction loans	146,464,663	173,443,640
Equity interest in real estate	362,177,702	456,350,806
Real estate investment trusts held by custodian	23,997,115	22,079,163
Pooled investments	247,660,427	253,585,160
Private placements	79,176,172	102,431,667
Accrued investment income	14,619,565	17,095,971
Contributions receivable	36,603,956	31,395,781
Receivables from investment sales	20,593,289	53,534,460
Other accounts receivable	1,111,294	666,362
Capital assets (Note 1)	1,476,720	1,330,348
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	25,284,942	50,634,125
Bank notes	-	43,404,850
Certificates of deposit	12,000,324	35,250,000
Certificates of deposit floating rate	-	10,009,300
Commercial paper	-	103,413,733
Money market	305,458,484	39,450,436
U.S. corporate floating rate	48,905,000	233,880,030
Total assets	<u>3,474,676,111</u>	<u>3,661,876,658</u>
Liabilities		
Payables for investment purchases	24,667,616	39,470,631
Claims payable to retirees and beneficiaries	5,637,651	4,149,922
Other liabilities	4,474,307	4,834,866
Amounts due broker under securities lending agreement (Note 3)	421,947,302	561,260,621
Total liabilities	<u>456,726,876</u>	<u>609,716,040</u>
Net Assets Held in Trust for Pension Benefits		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 3,017,949,235</u>	<u>\$ 3,052,160,618</u>

Police and Fire Retirement System of the City of Detroit

Statement of Changes in Plan Net Assets Year Ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

	Police and Fire Retirement System	
	2010	2009
Additions		
Investment income (loss):		
Interest and dividend income	\$ 131,472,991	\$ 125,993,845
Net appreciation (depreciation) in fair value	71,570,563	(785,524,437)
Investment expense	(15,237,023)	(14,155,820)
Securities lending income	1,865,072	5,526,906
Net gain (loss) on collateral pool	14,919,595	(45,218,147)
Other income	806,855	377,866
Net investment income (loss)	205,398,053	(712,999,787)
Contributions:		
Employee	10,764,969	10,902,956
Employer	32,808,485	36,151,057
Total additions - Net	248,971,507	(665,945,774)
Deductions		
Retirees' pension and annuity benefits	251,671,929	239,744,214
Member refunds and withdrawals	27,252,643	12,395,300
General and administrative expenses	4,169,148	4,312,555
Depreciation expense	89,170	90,273
Total deductions	283,182,890	256,542,342
Net Decrease in Net Assets Held in Trust for Pension Benefits	(34,211,383)	(922,488,116)
Net Assets Held in Trust for Pension Benefits - Beginning of year	3,052,160,618	3,974,648,734
Net Assets Held in Trust for Pension Benefits - End of year	\$ 3,017,949,235	\$ 3,052,160,618

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City of Detroit as pension trust funds. The assets of the pension trust funds include no securities of or loans to the City or any other related party.

Basis of Accounting - The Police and Fire Retirement System of the City of Detroit's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value 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 28 percent of the System's assets are not publicly traded and, therefore, do not always have a readily determinable market value. 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.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets for the System represent 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.

Reclassifications - Comparative data for the prior year has been reclassified in order to be consistent with the current manner of presentation.

Note 2 - Plan Description and Contribution Information

At June 30, 2010, the membership of the defined benefit plan and the defined contribution plan consisted of the following:

	Defined Benefit Plan	Defined Contribution Plan
Retirees and beneficiaries receiving pension benefits	8,560	888
Terminated plan members entitled to but not yet receiving benefits	83	26
Active plan members	4,045	3,820

Plan Description - The System provides retirement benefits as well as survivor and disability benefits. Employees may receive cost-of-living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City Charter and negotiation with the employees' collective bargaining unit.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 2 - Plan Description and Contribution Information (Continued)

Contributions - The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings.

The contribution rate calculated by the actuary for 2009-2010 and 2008-2009 was 26.27 percent and 26.71 percent, respectively, of active member annual payroll. This computes to an actuarially required contribution of \$57,808,485 and \$61,151,057 for the two years, respectively. However, the pension system granted the City overfunding credits of \$25,000,000 for each year, resulting in actual contributions from the employer of \$32,808,485 and \$36,151,057 for the years ended June 30, 2010 and 2009, respectively.

Employees are required to make contributions toward annuity savings in the amount of 5 percent of base compensation until eligibility for retirement is reached. Contributions from employees totaled \$10,764,969 and \$10,902,956 for the years ended June 30, 2010 and 2009, respectively. The contribution requirements of plan members and the City of Detroit are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions.

Annual Pension Costs - The annual contribution for the year ended June 30, 2010 was \$57,808,485. The annual contribution was determined as part of an actuarial valuation at June 30, 2008, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4 percent per year, due to inflation, (c) additional salary increases of 1 percent to 5.2 percent per year based on merit and/or longevity, and (d) cost-of-living adjustments for certain members of 2.25 percent per year. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a three-year period and include an inflation component of 4 percent. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 27 years.

Per the actuarial report dated June 30, 2009, all assumptions have remained consistent.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 2 - Plan Description and Contribution Information (Continued)

Funded Status and Funding Progress - As of June 30, 2009, the most recent actuarial valuation date, the plan was 93.5 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$4,221,291,045 and the actuarial value of assets was \$3,945,205,453, resulting in underfunding of \$276,085,592. The covered payroll (annual payroll for active employees covered by the plan) was \$231,795,528.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-year trend information as of June 30 is as follows:

	Fiscal Year Ended June 30		
	2008	2009	2010
Annual pension costs	\$58,934,636	\$61,151,056	\$57,808,485
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

See Note 4 for disclosure of required reserves.

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, 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 the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority other than REIT and real estate asset balances under Section 19(1) and 19(2), respectively, being in excess of statutory limits by approximately .2 percent and 1.2 percent, respectively.

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 3 - Deposits and Investments (Continued)

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and 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 plan net assets.

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. The System had no bank deposits (certificates of deposit, checking, and savings, etc.) at June 30, 2010 or 2009 that were uninsured and uncollateralized. 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.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

At June 30, 2010, the average maturities of investments are as follows:

Investment Type	Fair Value (\$000)	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government	\$ 58,820	\$ 7,585	\$ 33,595	\$ 5,950	11,690
Government assets and mortgage backed	63,993	-	-	336	63,657
Treasuries	1,116	1,000	-	-	116
Corporate	448,796	6,546	200,553	153,750	87,947
Other fixed income	56,957	5,478	34,146	11,060	6,273
Convertible bonds	23,918	1,230	13,904	2,403	6,381
Pooled and mutual funds**	141,105	-	-	-	-
Government agencies	-	-	-	-	-
Certificate of deposit	2	2	-	-	-
State and local obligations	589	-	-	-	589
Convertible preferred stock**	3,594	-	2,702	-	694
Construction loans	41,453	-	41,453	-	-
Mortgages	105,012	-	94,657	10,355	-
Total	\$ 945,355	\$ 21,841	\$ 421,010	\$ 183,854	\$ 177,347

**Not all pooled, mutual funds and convertible stock are subject to interest rate risk.

At June 30, 2009, the average maturities of investments are as follows:

Investment Type	Fair Value (\$000)	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government	\$ 94,343	\$ 4,129	\$ 80,970	\$ -	\$ 9,244
Government assets and mortgage backed	65,865	-	-	-	65,865
Treasuries	4,233	4,233	-	-	-
Corporate	481,420	18,189	263,520	113,090	86,621
Other fixed income	65,385	1,781	36,315	19,069	8,220
Convertible bonds	17,948	-	9,263	1,644	7,041
Pooled and mutual funds**	-	-	-	-	-
Government agencies	9,158	1,229	2,921	3,796	1,212
Certificates of deposit	3	3	-	-	-
State and local obligations	381	-	-	-	381
Construction loans	68,101	64,607	3,494	-	-
Mortgages	105,342	13,908	82,989	8,445	-
Convertible preferred stock	722	-	305	-	417
Total	\$ 912,901	\$ 108,079	\$ 479,777	\$ 146,044	\$ 179,001

**Not all pooled and mutual funds are subject to interest rate risk.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

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, 2010, 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 (\$000)	AAA	AA	A	BBB	BB
Pooled and mutual funds	\$ 971	\$ -	\$ -	\$ -	\$ -
Government fixed income	-	536	-	1,175	-
Government assets and mortgage backed	-	-	-	-	-
Corporate fixed income	37,611	20,748	76,843	105,237	50,325
Other fixed income	-	3,464	7,996	9,236	5,134
Convertible bonds	511	660	4,939	4,281	-
Convertible preferred stock	-	-	-	1,138	2,715
Mortgages	-	-	-	-	-
Construction loans	-	-	-	-	-
Certificates of deposit	-	-	-	-	-
Government agencies	56,251	-	-	-	-
Treasuries	-	-	-	-	-
State and local obligations	-	-	-	-	-
Total	<u>\$ 95,344</u>	<u>\$ 25,408</u>	<u>\$ 89,778</u>	<u>\$ 121,067</u>	<u>\$ 58,174</u>

Investment Type and Fair Value (\$000)	B	CCC and Below	NR
Pooled and mutual funds	\$ -	\$ -	\$ 140,134
Government fixed income	-	-	-
Government assets and mortgage backed	-	-	-
Corporate fixed income	103,176	25,731	48,375
Other fixed income	15,869	8,853	15,904
Convertible investments	3,065	655	7,092
Convertible preferred stock	694	-	1,762
Mortgages	-	-	105,012
Construction loans	-	-	61,773
Certificates of deposit	-	-	2
Government agencies	-	-	-
Treasuries	-	-	116
State and local obligations	-	-	-
Total	<u>\$ 122,804</u>	<u>\$ 35,239</u>	<u>\$ 380,170</u>

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

As of June 30, 2009, 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 (\$000)	AAA	AA	A	BBB	BB
Pooled and mutual funds	\$ 3,686	\$ -	\$ -	\$ -	\$ -
Government fixed income	91,692	-	-	157	-
Government assets and mortgage backed	4,609	-	-	-	-
Corporate fixed income	36,009	61,395	106,136	103,984	53,783
Other fixed income	1,637	6,115	9,675	12,071	10,887
Convertible investments	-	607	2,565	8,044	3,012
Mortgages	-	-	-	-	-
Construction loans	-	-	-	-	-
Certificates of deposit	-	-	-	-	-
Government agencies	9,157	-	-	-	-
Treasuries	4,233	-	-	-	-
State and local obligations	-	-	-	-	-
Total	<u>\$ 151,023</u>	<u>\$ 68,117</u>	<u>\$ 118,376</u>	<u>\$ 124,256</u>	<u>\$ 67,682</u>

Investment Type and Fair Value (\$000)	B	CCC and Below	NR
Pooled and mutual funds	\$ -	\$ -	\$ 75,885
Government fixed income	387	-	-
Government assets and mortgage backed	-	-	-
Corporate fixed income	74,498	21,564	41,250
Other fixed income	14,425	5,839	4,736
Convertible investments	1,865	-	4,357
Mortgages	-	-	105,342
Construction loans	-	-	68,101
Certificates of deposit	-	-	3
Government agencies	-	-	-
Treasuries	-	-	-
State and local obligations	-	-	381
Total	<u>\$ 91,175</u>	<u>\$ 27,403</u>	<u>\$ 300,055</u>

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

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.

At June 30, 2010, the following securities are subject to foreign currency risk (in \$000):

	Equity	Forward Contracts Unrealized Gain (Loss)	Cash	Cash Equivalent
Australian dollar	\$ 9,189	\$ 2,563	\$ 241	\$ -
Brazilian real	534	-	-	-
British pound sterling	78,076	(7,810)	404	-
Canadian dollar	16,128	4,465	89	-
Danish krone	4,878	-	10	-
Euro currency	82,875	(5,367)	5,018	118
Hong Kong dollar	7,721	-	115	-
Hungarian forint	-	-	-	-
Indian rupee	1,181	-	(5)	-
Indonesian rupiah	1,092	-	29	-
Israeli shekel	218	670	13	-
Japanese yen	50,268	(12,173)	175	-
Malaysian ringgit	184	-	1	-
Mexican nuevo peso	318	-	-	-
New Taiwan dollar	387	-	3	-
New Zealand dollar	97	-	2	-
Norwegian krone	2,970	(848)	53	-
Renminbi yuan	777	-	-	-
Singapore dollar	4,189	-	177	-
South African rand	453	-	5	-
South Korean won	344	-	-	-
Swedish krona	3,217	2,346	45	-
Swiss franc	22,133	4,498	83	-
Thai baht	437	-	8	-
Turkish lira	1,001	-	15	-
Total	<u>\$ 288,667</u>	<u>\$ (11,656)</u>	<u>\$ 6,481</u>	<u>\$ 118</u>

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

At June 30, 2009, the following securities are subject to foreign currency risk (in \$000):

	Equity	Forward Contracts Unrealized Gain (Loss)	Cash	Cash Equivalent
Australian dollar	\$ 14,174	\$ 306	\$ 546	\$ -
Brazilian real	-	-	-	-
British pound sterling	71,506	(7,098)	218	-
Canadian dollar	10,744	4,547	26	-
Danish krone	3,632	-	36	-
Euro currency	95,528	4,429	2,058	423
Hong Kong dollar	5,281	-	60	-
Japanese yen	56,423	(284)	(102)	-
Mexican nuevo peso	127	-	-	-
New Taiwan dollar	-	-	-	-
New Zealand dollar	235	-	-	-
Norwegian krone	3,162	(181)	48	-
New Turkish lira	407	-	2	-
Singapore dollar	2,996	-	250	-
South Korean won	280	-	-	-
Swedish krona	3,069	1,242	10	-
Swiss franc	20,990	(3,308)	650	-
Total	<u>\$ 288,554</u>	<u>\$ (347)</u>	<u>\$ 3,802</u>	<u>\$ 423</u>

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 104 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.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

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, 2010 and 2009 was 10 and 38 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, 2010 and 2009, 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, 2010 were \$421,947,558 and \$405,993,536, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2010 on loan:

<u>Securities Lent</u>	<u>Underlying Securities</u>
U.S. government and agencies	\$ 44,517,736
U.S. corporate fixed income	67,217,577
U.S. equities	285,936,289
Non-U.S. equities	<u>8,321,934</u>
Total	<u>\$ 405,993,536</u>

The fair market value of the collateral pool related to securities lending at June 30, 2010 was \$391,648,750. The investments were in asset-backed securities, bank notes, certificates of deposit (floating rate), money markets, and U.S. corporate securities (floating rate). Approximately 94 percent of these securities had a duration of less than one year, 1 percent had a duration between 5-15 years, and 5 percent had a duration over 15 years.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

The credit ratings of the securities lending collateral pool held at June 30, 2010 as rated by S&P are as follows:

Ratings	Amount
AAA	\$ 3,829,070
AA	25,427,248
A	22,524,686
A-I	12,000,324
BBB	1,939,142
B	5,559,937
CCC	11,009,859
NR	309,358,484
Total	<u>\$ 391,648,750</u>

The following represents the balances relating to the securities lending transactions as of June 30, 2009; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. government and agencies	\$ 30,252,955
U.S. corporate fixed income	53,847,818
U.S. equities	440,551,633
Non-U.S. equities	<u>16,168,800</u>
Total	<u>\$ 540,821,206</u>

The fair market value of collateral of the securities lending at June 30, 2009 was \$516,042,474. The investments were in asset-backed securities, bank notes, certificates of deposit (floating rate), mutual funds, and U.S. corporate securities (floating rate). Approximately 86 percent of these securities had a duration of less than one year, 12 percent had a duration between one to five years, and 1 percent had a duration over 15 years.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

The credit ratings of the securities lending collateral pool held at June 30, 2009 as rated by S&P are as follows:

Ratings	Amount
AAA	\$ 48,423,387
AA	34,600,000
A	9,808,300
A-I	369,124,613
BB	2,210,738
B	9,475,000
NR	42,400,436
Total	<u>\$ 516,042,474</u>

Note 4 - Reserves

The plan requires that employee contributions be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2010 and 2009, these reserves were more than the net assets of the Plan.

	2010	2009
Reserved for employee contributions	\$ 297,755,895	\$ 300,661,737
Reserved for retired employees	2,948,411,972	2,836,745,319

A statement of changes in plan net assets by fund is included in the other supplemental information.

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2010 and 2009**

Note 5 - 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 Employees' Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit. Any future UAAL that may arise will 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 System 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 6 - Credit Enhancement Agreements and Funding Commitments

The System had credit enhancement agreements totaling \$25,000,000 and \$110,000,000 during 2010 and 2009, respectively. In exchange for the credit enhancement, the System receives fees from the companies to which the enhancement agreements have been given.

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, 2010, the remaining capital funding commitment for the System is approximately \$160,000,000, of which the System has subsequently funded approximately \$25,000,000.

Required Supplemental Information

Police and Fire Retirement System of the City of Detroit

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/04	\$ 3,074,516,589	\$ 3,857,493,282	\$ 782,976,693	79.7	\$ 258,699,581	302.7
06/30/05	3,757,894,417	3,780,447,414	22,552,997	99.4	250,491,872	9.0
06/30/06	3,980,254,576	3,808,952,741	(171,301,835)	104.5	228,140,160	-
06/30/07	4,307,183,758	3,896,814,229	(410,369,529)	110.5	230,173,964	-
06/30/08	4,316,263,291	4,071,053,752	(245,209,539)	106.0	232,812,606	-
06/30/09	3,945,205,453	4,221,291,045	276,085,592	93.5	231,795,528	119.1

Police and Fire Retirement System of the City of Detroit

Required Supplemental Information Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	Transfer from Accrued Liability Reserve *
2005	\$ 51,604,596	\$ 51,604,596	100	\$ 47,237,665
2006	57,807,332	57,807,332	100	29,859,352
2007	57,423,366	57,423,366	100	32,935,982
2008 *	58,934,636	41,113,934	70	34,074,039
2009 *	61,151,057	36,151,057	59	36,791,369
2010 *	57,808,485	32,808,485	57	41,403,282

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2009, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	26 years closed
Asset valuation method	Three-year smoothed market
Actuarial assumptions:	
Investment rate of return **	7.5%
Projected salary increases **	5.0% - 9.2%
**Includes inflation at	4.0%
Cost-of-living adjustments	2.25%

* In accordance with the pension obligation certificate requirements, annual transfers are made from the Accrued Liability Fund to the Pension Accumulation Reserve for the amortization of the unfunded liability that existed at the date the certificates were issued.

** For the years ended June 30, 2010, 2009, and 2008, the System gave a credit to the City for the current year contributions.

Other Supplemental Information

Police and Fire Retirement System of the City of Detroit

Other Supplemental Information Description of Funds

Annuity Savings Fund - This fund represents cumulative required and voluntary contributions made by the active employees plus accumulated interest.

Annuity Reserve Fund - Transfers are made from the Annuity Savings Fund into the Annuity Reserve 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.

Both annuity funds are referred to as defined contribution plans.

Market Stabilization Fund - This fund represents designations from the plans' investment income (loss) to be used to cushion the market value adjustments within the other funds. The board of trustees authorized the creation of this fund, and the reserve amounts are calculated using a three-year average method.

Accrued Liability Reserve Fund - This fund originated during June 2005 when the City issued pension obligation certificates to fund the unfunded actuarial accrued liability that existed at June 30, 2003 (subject UAAL). On an annual basis, the actuary will inform the System of the amount to transfer from the accrued liability reserve to the Pension Accumulation Fund in lieu of contributions from the City for the subject UAAL.

Survivor Benefits Fund - This fund is used to accumulate the DPFERS employee and City contributions for certain survivor benefits from which the related benefits are paid.

Pension Accumulation Fund - This fund represents accumulated City contributions to the System for the payment of pensions and other benefits to future retirees. Additionally, pre-employment military service credit contributions are captured in this fund.

Pension Reserve Fund - This fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the Pension Accumulation Fund.

Police and Fire Retirement System of the City of Detroit

	<u>Annuity Reserves</u>		
	<u>Annuity Savings Fund</u>	<u>Annuity Reserve Fund</u>	<u>Market Stabilization Fund</u>
Additions			
Net investment income (loss)	\$ 16,955,471	\$ 1,610,407	\$ 492,418,214
Contributions:			
Employee	10,526,221	-	-
Employer	-	-	-
Total additions - Net	<u>27,481,692</u>	<u>1,610,407</u>	<u>492,418,214</u>
Deductions			
Retirees' pension and annuity benefits	-	645,903	-
General and administrative expenses	-	-	-
Depreciation expense	-	-	-
Member refunds and withdrawals	<u>27,252,643</u>	<u>-</u>	<u>-</u>
Total deductions	<u>27,252,643</u>	<u>645,903</u>	<u>-</u>
Net Additions (Deductions) - Before transfers	229,049	964,504	492,418,214
Transfers - Net	<u>(3,134,891)</u>	<u>3,003,720</u>	<u>-</u>
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(2,905,842)	3,968,224	492,418,214
Net Assets Held in Trust for Pension Benefits - Beginning of year	<u>300,661,737</u>	<u>23,340,834</u>	<u>(891,229,071)</u>
Net Assets Held in Trust for Pension Benefits - End of year	<u>\$297,755,895</u>	<u>\$27,309,058</u>	<u>\$ (398,810,857)</u>

Other Supplemental Information
Statement of Changes in Plan Net Assets by Fund
Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

Accrued Liability Reserve Fund	Pension Reserves			Total	
	Survivor Benefits Fund	Pension Accumulation Fund	Pension Reserve Fund	2010	2009
\$ 47,362,325	\$ 378,704	\$ (563,146,589)	\$ 209,819,521	\$ 205,398,053	\$ (712,999,787)
-	-	238,748	-	10,764,969	10,902,956
-	-	32,808,485	-	32,808,485	36,151,057
<u>47,362,325</u>	<u>378,704</u>	<u>(530,099,356)</u>	<u>209,819,521</u>	<u>248,971,507</u>	<u>(665,945,774)</u>
-	4,165,655	-	246,860,371	251,671,929	239,744,214
-	-	4,169,148	-	4,169,148	4,312,555
-	-	89,170	-	89,170	90,273
-	-	-	-	27,252,643	12,395,300
<u>-</u>	<u>4,165,655</u>	<u>4,258,318</u>	<u>246,860,371</u>	<u>283,182,890</u>	<u>256,542,342</u>
47,362,325	(3,786,951)	(534,357,674)	(37,040,850)	(34,211,383)	(922,488,116)
<u>(41,403,282)</u>	<u>-</u>	<u>(103,204,826)</u>	<u>144,739,279</u>	<u>-</u>	<u>-</u>
5,959,043	(3,786,951)	(637,562,500)	107,698,429	(34,211,383)	(922,488,116)
<u>674,899,835</u>	<u>8,973,596</u>	<u>122,109,202</u>	<u>2,813,404,485</u>	<u>3,052,160,618</u>	<u>3,974,648,734</u>
<u>\$680,858,878</u>	<u>\$ 5,186,645</u>	<u>\$(515,453,298)</u>	<u>\$2,921,102,914</u>	<u>\$3,017,949,235</u>	<u>\$3,052,160,618</u>