

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	2005	2004
Cash	\$23,279,582	\$8,051,609
Investment, at market value	3,383,373,136	2,554,004,072
Accrued Investment Income	10,236,614	8,411,293
Contributions Receivable	0	7,651,467
Receivables from Investment Sales	133,349,955	76,350,780
Other Accounts Receivable	475,090	688,729
Capital Assets	460,054	569,142
Securities Lending Collateral	0	238,757,976
TOTAL ASSETS	\$3,551,174,431	\$2,894,485,068
LIABILITIES		
Payables for Investment Purchases	167,433,642	99,488,967
Claims Payable to Retirants and Beneficiaries	15,317,706	6,473,803
Accrued Pension Benefits	0	0
Due to Other Funds	1,778,305	1,672,755
Pension over Contribution	12,303,429	0
Other Liabilities	35,455,022	26,594,553
Securities Lending Collateral	0	238,757,976
TOTAL LIABILITIES	\$232,288,104	\$372,988,054
FUND BALANCES		
Annuity Reserves:		
Annuity Savings Fund	632,101,967	658,348,546
Annuity Reserve Fund	38,652,617	34,868,163
Pension Reserves:		
Pension Obligation Certificate	680,103,722	0
Pension Accumulation Fund	304,087,675	338,853,366
Pension Reserve Fund	1,567,447,879	1,438,173,394
Market Stabilization Fund	96,492,467	51,253,545
TOTAL FUND BALANCES	\$3,318,886,327	\$2,521,497,014
TOTAL LIABILITIES & FUND BALANCES	\$3,551,174,431	\$2,894,485,068

FINANCIAL SECTION

STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND BALANCE

	ANNUITY RESERVES			PENSION RESERVES			TOTAL	
	ANNUITY SAVINGS FUND	ANNUITY RESERVE FUND	MARKET STABILIZATION FUND	ACCRUED LIABILITY RESERVE FUND	PENSION ACCUMULATION FUND	PENSION RESERVE FUND	2005	2004
Revenues:								
City Contributions	\$0	\$0	\$0	\$739,793,898	\$41,689,528	\$0	\$781,483,426	\$95,876,076
Members' Contributions	22,572,347	0	0	0	76,315	0	22,648,662	24,290,278
Investment Income, Net	58,619,317	2,770,790	45,238,922	5,116,908	49,988,238	114,680,477	276,414,652	336,583,041
TOTAL REVENUES	81,191,664	2,770,790	45,238,922	744,910,806	91,754,081	114,680,477	1,080,546,740	456,749,395
Expenses:								
Pension & Annuity Benefits	0	4,462,200	0	0	0	167,789,179	172,251,379	156,921,199
General & Administrative Expenses	0	0	0	0	4,023,939	0	4,023,939	3,862,436
Refunds	105,512,457	0	0	0	1,369,652	0	106,882,109	98,292,960
TOTAL EXPENSES	105,512,457	4,462,200	0	0	5,393,591	167,789,179	283,157,427	259,076,595
Excess (Deficiency) of Revenue								
Over (Under) Expenses	(24,320,793)	(1,691,410)	45,238,922	744,910,806	86,360,490	(53,108,702)	797,389,313	197,672,800
Transfers, Net	(1,925,786)	5,475,864	0	(64,807,084)	(121,126,181)	182,383,187	0	0
Fund Balances at								
Beginning of Year	658,348,546	34,868,163	51,253,545	0	338,853,366	1,438,173,394	2,521,497,014	2,323,824,214
FUND BALANCES AT END OF YEAR	\$632,101,967	\$38,652,617	\$96,492,467	\$680,103,722	\$304,087,675	\$1,567,447,879	\$3,318,886,327	\$2,521,497,014

2004 - 2005 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 \$279,133,488 (over \$23 million per month) which was up 19% from the prior fiscal year. The System currently pays out 8.7% of its assets in benefits every year. 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 2004 – 2005 fiscal year marks the fifth 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 55% equities, 27% fixed income including cash and short term investments used to pay benefits, with the remaining 18% allocated to real estate and alternative investments.

During the 2004 – 2005 fiscal year the System's targeted asset allocation and composition of investment management were unchanged. The Board engages a retained consultant to advise on its investments and investment managers.

The Board maintained the scope and diversification of its real estate and private equity assets. Returns from real estate and private equity were exceptionally strong during this fiscal year. Real estate was the System's best performing asset class.

SUMMARY OF ASSUMPTIONS USED FOR DGRS ACTUARIAL VALUATIONS

assumptions adopted by board of trustees after consulting with actuary

ECONOMIC ASSUMPTIONS

THE INVESTMENT RETURN RATE used in making the valuation was 7.9% per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering other economic assumptions, the 7.9% total investment return rate translates to an assumed real rate of return of 3.9%.

PAY INCREASE ASSUMPTIONS for individual active members have been calculated. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation.

TOTAL ACTIVE MEMBER PAYROLL is assumed to increase 4.0% annually, which is the portion of the individual pay increase assumptions attributable to inflation.

NON-ECONOMIC ASSUMPTIONS

THE NUMBER OF ACTIVE MEMBERS is assumed to continue at the present number.

THE MORTALITY TABLE used to measure retired life mortality was 90% of the 1983 Group Annuity Mortality Table. This table was first used for the June 30, 2003, valuation.

THE PROBABILITIES OF RETIREMENT for members eligible to retire have been calculated. These probabilities were revised for the June 30, 2003, valuation.

THE PROBABILITIES OF SEPARATION from service (including *death-in-service* and *disability*) are shown for sample ages. These probabilities were revised for the June 30, 2003, valuation.

FUNDING METHODS

THE ENTRY AGE ACTUARIAL COST METHOD was used in determining age & service pension liabilities and normal cost, vesting liabilities and normal cost, and casualty pension liabilities and normal cost.

DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE (“actuarial gains and losses”) become part of actuarial accrued liabilities and are amortized over a 15-year period.

UNFUNDED ACTUARIAL ACCRUED LIABILITIES (net of actuarial gains and losses after 6/30/92 and 6/30/98) are amortized over a 20-year period, to produce contribution amounts (principal & interest) which are level percent of payroll contributions.

EMPLOYER CONTRIBUTION

dollars were assumed to be paid in equal monthly installments throughout the employer fiscal year.

PRESENT ASSETS were reported to be valued using a three-year smoothing of the difference between expected and actual investment income.

THE DATA ABOUT PERSONS NOW COVERED AND ABOUT PRESENT ASSETS were furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).