

**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](http://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

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
Cash .....	\$8,051,609	\$0
Investment, at market value .....	2,554,004,072	2,336,018,795
Accrued Investment Income .....	8,411,293	8,326,932
Contributions Receivable .....	7,651,467	8,447,812
Receivables from Investment Sales .....	76,350,780	50,147,570
Other Accounts Receivable .....	688,729	1,077,197
Capital Assets .....	569,142	598,933
Securities Lending Collateral .....	238,757,976	140,498,910
<b>TOTAL ASSETS</b> .....	<b>\$2,894,485,068</b>	<b>\$2,545,116,149</b>
<b>LIABILITIES</b>		
Bank Overdraft .....	0	1,665,263
Payables for Investment Purchases .....	99,488,967	44,738,382
Claims Payable to Retirants and Beneficiaries .....	6,473,803	4,551,486
Accrued Pension Benefits .....	0	0
Due to Other Funds .....	1,672,755	1,608,667
Other Liabilities .....	26,594,553	28,229,227
Securities Lending Collateral .....	238,757,976	140,498,910
<b>TOTAL LIABILITIES</b> .....	<b>\$372,988,054</b>	<b>\$221,291,935</b>
<b>FUND BALANCES</b>		
Annuity Reserves:		
Annuity Savings Fund .....	658,348,546	688,573,496
Annuity Reserve Fund .....	34,868,163	31,090,653
Pension Reserves:		
Pension Accumulation Fund .....	338,853,366	355,463,047
Pension Reserve Fund .....	1,438,173,394	1,462,541,180
Market Stabilization Fund .....	51,253,545	(213,844,162)
<b>TOTAL FUND BALANCES</b> .....	<b>\$2,521,497,014</b>	<b>\$2,323,824,214</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b> .....	<b>\$2,894,485,068</b>	<b>\$2,545,116,149</b>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	ANNUITY RESERVES			PENSION RESERVES		TOTAL	
	ANNUITY SAVINGS FUND	ANNUITY RESERVE FUND	MARKET STABILIZATION FUND	PENSION ACCUMULATION FUND	PENSION RESERVE FUND	2004	2003
Revenues:							
City Contributions	\$0	\$0	\$0	\$95,876,076	\$0	\$95,876,076	\$72,859,246
Members' Contributions	24,220,958	0	0	69,320	0	24,290,278	25,046,453
Investment Income-Net	47,520,167	2,559,171	265,097,707	(88,716,978)	110,122,974	336,583,041	81,733,380
<b>TOTAL REVENUES</b>	<b>71,741,125</b>	<b>2,559,171</b>	<b>265,097,707</b>	<b>(7,228,418)</b>	<b>110,122,974</b>	<b>456,749,395</b>	<b>179,639,079</b>
Expenses:							
Pension & Annuity Benefits	0	4,214,635	0	0	152,706,564	156,921,199	151,158,815
General & Administrative Expenses	0	0	0	3,862,436	0	3,862,436	3,769,641
Refunds	97,437,678	0	0	855,282	0	98,292,960	90,883,100
<b>TOTAL EXPENSES</b>	<b>97,437,678</b>	<b>4,214,635</b>	<b>0</b>	<b>4,717,718</b>	<b>152,706,564</b>	<b>259,076,595</b>	<b>245,811,556</b>
Excess (Deficiency)of Revenue							
Over (Under) Expenses	(25,696,553)	(1,655,464)	265,097,707	2,510,700	(42,583,590)	197,672,800	(66,172,477)
Transfers-Net	(4,528,397)	5,432,974	0	(19,120,381)	18,215,804	0	0
Fund Balances at							
Beginning of Year	688,573,496	31,090,653	(213,844,162)	355,463,047	1,462,541,180	2,323,824,214	2,389,996,691
<b>FUND BALANCES</b>							
<b>AT END OF YEAR</b>	<b>\$658,348,546</b>	<b>\$34,868,163</b>	<b>\$51,253,545</b>	<b>\$338,853,366</b>	<b>\$1,438,173,394</b>	<b>\$2,521,497,014</b>	<b>\$2,323,824,214</b>

## 2003-2004 FISCAL YEAR INVESTMENT ACTIVITY

12

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 \$255,214,159 (almost \$20 million per month) which was up 5% from the prior fiscal 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 2003 – 2004 fiscal year marks the fourth 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, 23% fixed income including cash and short term investments used to pay benefits, with the remaining 22% allocated to real estate and alternative investments.

During the 2003 – 2004 fiscal year the System's targeted asset allocation and composition of investment management were updated. Two firms were hired to manage enhanced S&P 500 index accounts. Two firms managing large cap value/core equities were terminated and the assets allocated to three other firms. One firm managing international equities was replaced. The overall returns from the new firms hired have been particularly good. The Board hired a consultant to advise on its investments in the alternative investments asset class.

The Board made a strategic allocation of 5% of the System's assets to the market neutral asset class and hired three firms to manage these assets. Market neutral strategies are alternative investments designed to deliver positive returns irrespective of whether the stock market goes up or down. This was done to dampen the volatility of the performance of the System.

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.