Hybrid Plan (Component I) of the General Retirement System of the City of Detroit

Financial Report
with Supplemental Information
June 30, 2015

Hybrid Plan (Component I) of the General Retirement System of the City of Detroit

Contents

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Hybrid Plan (Component I) of the
General Retirement System of the
City of Detroit

Report on the Financial Statements

We have audited the accompanying financial statements of the Hybrid Plan (Component I) of the General Retirement System of the City of Detroit (the "Plan") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic 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 audit. 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 audits 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 misstatement 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.

To the Board of Trustees
Hybrid Plan (Component I) of the
General Retirement System of the
City of Detroit

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Hybrid Plan (Component I) of the General Retirement System of the City of Detroit as of June 30, 2015 and the changes in its fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental 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, which 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 supplemental 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.

Plante & Moran, PLLC

March 17, 2016

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) the required 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 for the current year:

	Fiscal Year Ended June 30, 2015
Total assets	$ 63,992,821
Total liabilities	43,892,923
Fiduciary net position restricted for pensions	**$ 20,099,898**
Net investment income	$ 20,690
Contributions:	
Employee	12,757,032
Employer	8,811,369
Total contributions	21,568,401
Total additions	21,589,091
Benefits accrued to members and retirees:	10,603
Contributions received in excess of benefits paid	21,557,798
Ratio of contributions to benefits paid	203,417.91%
Other expenses	1,481,590
Net increase in fiduciary net position restricted for pensions	**$ 20,096,898**

Fund Overview, Membership, and Governance

The General Retirement System of the City of Detroit ("DGRS" or the "System") consists of defined benefit pension plans and defined contribution plans for the non-uniformed employees of the City of Detroit (the "City"), comprised of Component I and Component II, which are memorialized in a document entitled *The Combined Plan for the General Retirement System of the City of Detroit*, effective July 1, 2014, as amended and restated December 8, 2014 (the "Combined Plan"). This discussion and its accompanying financial statements are primarily concerned with Component I, a new pension plan created by the City effective July 1, 2014, for active non-uniformed employees of the City to earn pension benefits on and after that date (also referred to as the "Hybrid Plan").

As discussed in greater detail below, at the conclusion of the 2014 fiscal year, the City "froze" Component II. The "freeze" of Component II, which was the pension plan that existed as of June 30, 2014, means that no further benefit accruals occurred after that date and no new employees are allowed to participate as members. Component II (also referred to as the "Legacy Plan") is not reported within these financial statements.

DGRS exists to pay benefits to its members. Members of the System include active non-uniformed City employees, retirees, and their beneficiaries. Active members still employed with the City on and after July 1, 2014, have and will earn service credit that entitles them to receive benefits in the future in Component I, but not in Component II, which, as noted above, has been frozen. Both the employer and municipal plan sponsor for the System, the City, and actively employed members have historically contributed to the System (the employee contributions were voluntary prior to July 1, 2014). Retirees, their beneficiaries, and disabled members are those currently receiving benefits, though the City elected in FY2015 to transition new disability claims from the benefit program administered by the System to one administered by a third-party insurance carrier.

Component I of DGRS is a newly-created plan (effective July 1, 2014), with more active members earning service credit than members eligible to receive or receiving benefits. As of June 30, 2014, at the inception of Component I, there were 4,881 active members.

It is worth emphasizing that Component I is a brand new pension plan, created in the midst of the City's Chapter 9 bankruptcy proceedings, in mid-2014. Under Michigan law, its creation by the City did not require bankruptcy court approval, but was rather implemented by the Emergency Manager pursuant to authority under Michigan law. The decision by the City's Emergency Manager to create a new pension plan occurred during a period of unprecedented uncertainty and upheaval. DGRS had not yet, as of the conclusion of fiscal year 2015 (or late in calendar year 2015) completed implementation of the administrative modules and processes necessary to fully implement Component I and pay benefits, since implementation of the adjustments required by the Chapter 9 bankruptcy plan and the Orders of the bankruptcy court, combined with continuing to seamlessly continue to administer Component II benefits for retirees, took first priority.

By way of background, a brief review of the City's migration from the Legacy Plan to the Hybrid Plan is appropriate. On June 30, 2014, the Emergency Manager of the City of Detroit issued Order #30, which froze Component II. After that date, no new employees were allowed to participate in Component II and benefit accruals for members with respect to service rendered prior to July 1, 2014, were frozen based on the member's years of service, average final compensation and the pension multiplier formula as of the freeze date. Employees working after July 1, 2014, are now earning service credit in the Hybrid Plan, or Component I. On July 1, 2014, the City first published the Combined Plan with the City Clerk. By August 1, 2014, the City completed the payroll information systems project transitions required to allow now-mandatory employee contributions to be contributed to Component I. The City completed payment of its employer contributions for the first year fiscal year of Component I as of June 30, 2015.

On October 19, 2014, the Emergency Manager issued Order No. 43, which amended and restated the Combined Plan. On December 8, 2014, before leaving office, the Emergency Manager issued Order No. 44, which again amended and restated the Combined Plan. According to Order No. 44, the latest amendments and restatements to the Combined Plan conformed the Combined Plan terms to the requirements of the City's bankruptcy plan, and made clarifying modifications. The Combined Plan is available at DGRS's website, www.rscd.org.

In December 2014, DGRS governance was modified as part of the City's bankruptcy plan. DGRS is governed by a 10-member board of trustees (the "Board"). Although DGRS's investment management is now the ultimate responsibility of a 7-member investment committee (the "Investment Committee"), the Board maintains a role by providing the Investment Committee with input.

The Board is comprised of ten members. Five members are elected by the active membership to serve six-year terms. A sixth member is elected by the retiree membership to serve a two-year term. A seventh member is appointed by the Mayor of the City of Detroit from the citizens of the City to serve a six-year term. The three remaining members serve *ex officio*, these members being the Mayor of the City (or designee), the City Treasurer, and one representative from the Detroit City Council. Expirations of terms of elected trustees are staggered, while the remaining trustees serve in accordance with their Office or as a designee of an Office.

The Investment Committee has five independent members appointed to initial terms with staggered expiration, which terms will all eventually become six years. Two additional members, one active and one retired, serve on the Investment Committee based on appointment by the Board. The Investment Committee will be in place through at least December 2034.

The City of Detroit's Chapter 9 Bankruptcy Case, the Plan of Adjustment, and Implementation

In March 2013, after the City had endured years of financial difficulty, the Governor appointed an Emergency Manager for the City pursuant to Michigan Public Act 436 of 2012 ("PA 436"), which is a law that includes the ability for an Emergency Manager to file a bankruptcy proceeding. In anticipation of that possibility, DGRS had assembled a restructuring team of professional legal, financial, actuarial, and other advisors to assist the System's on-staff professionals with meeting the unknown challenges that could arise if the City filed for bankruptcy protection. At the direction of the Board of Trustees, the team of DGRS on-staff and other professionals met those challenges, which ultimately revealed themselves as unprecedented in scope and implication for DGRS and its members.

On July 18, 2013, the City filed a petition in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") seeking protection from its creditors under Chapter 9 of the United States Bankruptcy Code (the "Chapter 9 Case"). DGRS, one of the City's largest creditors because of its duty to collect employer contributions from the City and the City's delinquency in making required employer contributions as of fiscal year 2013, objected to the City's request for Chapter 9 relief on the basis that Article IX, section 24 of the Michigan Constitution of 1963 prevented the City from diminishing accrued pension benefits, even in bankruptcy. On December 5, 2013, after a hearing lasting several weeks, the Bankruptcy Court entered an order determining that the City was eligible for Chapter 9 relief, and holding that accrued pension benefits could be impaired in bankruptcy despite the language of the Michigan Constitution. DGRS immediately filed an appeal with the United States Court of Appeals for the Sixth Circuit.

The Bankruptcy Court also ordered DGRS and other creditors to mediate their disputes with the City, a process which gained momentum in early 2014. As a result of Court-ordered mediation, DGRS supported a proposed settlement of DGRS member pension claims which was memorialized in the City's Fourth Amended Plan for the Adjustment of Debts of the City of Detroit, filed on May 5, 2014 along with an accompanying Fourth Amended Disclosure Statement (the "Pension Settlement"). On May 12, 2014, the City issued ballots to all DGRS members as claim holders in Class 11 under the City's classification system for its creditors, seeking their approval of the Pension Settlement.

On June 11, 2014, the Board adopted a resolution supporting treatment of the DGRS Class 11 claim holders as part of the Pension Settlement. DGRS thereafter issued correspondence to its membership in support of the treatment of Class 11 claims. Also in June, the Michigan legislature adopted legislation, which the Governor signed, conditionally approving the State's contribution of $194.8 million, split between DGRS and the Police and Fire Retirement System of the City of Detroit, to support the resolution of the Chapter 9 Case.

In a balloting process that closed on July 11, 2014, the pension claim holders, including DGRS members, were deemed by the Bankruptcy Court to have supported the City's treatment of pension claims in the Pension Settlement. In order to facilitate the orderly flow of information on a timely basis to DGRS members concerning their individual pension claims against the City, the System, and its professionals provided material logistical support to the City in connection with the balloting process, without which the City would not have met the deadlines required by the Bankruptcy Court.

Meanwhile, in June 2014, separate and apart from the Chapter 9 Case, the Emergency Manager directed the City and its professional pension advisors to undertake efforts to prepare documentation and Emergency Manager Orders necessary to freeze the Legacy Plan as of June 30, 2014, and establish the Hybrid Plan effective July 1, 2014. As alluded to earlier, the Emergency Manager effectuated this action pursuant to authority under PA 436, separate and apart from those pension changes requiring Bankruptcy Court approval. The System and its professionals provided timely cooperation to the City in this effort, without which the City could not have accomplished the active pension transitions it deemed necessary.

In the Chapter 9 Case, the Pension Settlement's terms were carried forward to the Eighth Amended Plan for Adjustment of Debts of the City of Detroit (the "Plan of Adjustment"), filed with the Bankruptcy Court on October 22, 2014. In November 2014, after a confirmation hearing lasting several weeks, the Bankruptcy Court confirmed the Plan of Adjustment, which became effective December 10, 2014.

The Pension Settlement, as part of the Plan of Adjustment, compromised Component II pension claims and provided funding support for legacy pension benefit obligations under Component II from the State of Michigan, the Detroit Institute of Arts, and certain foundation donors. The Plan of Adjustment also required certain governance changes for DGRS. Those governance changes included establishment of the Investment Committee effective December 10, 2014, which officially marked the beginning of implementation of the Plan of Adjustment, though DGRS had for months already undertaken contingency planning for all of the pension adjustments required by the Pension Settlement. The pension adjustments related to Component II are described in detail in the financial statements associated with that Component of the Combined Plan. DGRS, with considerable contributions from its executive staff, management, and information technology professionals, in addition to outside professional advisors, successfully implemented the vast majority of pension adjustment required by the Plan of Adjustment in a timely fashion on March 1, 2015.

Contributions to the System

Historically, both the City and active employees have made regular contributions to the System, though employee contributions were optional in Component II, essentially before July 1, 2014, though there was a period of transition due to the City's aging information technology infrastructure which meant that voluntary employee contributions to Component II continued through July 2014, and mandatory employee contributions to Component I from active payroll were implemented as of August 1, 2014.

Basic pension and disability benefits in Component II had been funded through employer contributions plus investment earnings on those contributions, but employee contributions are mandatory in Component I. The required employer contributions had been determined by the System's actuaries using the entry age normal cost method, which is still the case. Assumptions used by the actuaries are subject to experience testing every five years, which is also still the case. Effective December 10, 2014, as part of the resolution of the Chapter 9 Case, the investment return assumption and discount rate used by the System's actuary for purposes of determining the System's assets and liabilities for funding purposes was fixed at 6.75 percent through the period ending June 30, 2023. This applies to both Component I and Component II.

With respect to Component I, the Hybrid Plan, non-uniformed employees who are members of DGRS are now required to make mandatory contributions of 4% of pay toward their defined benefit pensions earned with the City, and the City contributes an additional 5% of pay. The City no longer counts overtime in the calculation of its employer contribution.

The City is also setting aside an additional 0.75% of payroll to meet the premium payments required for the disability insurance established with a third-party carrier. DGRS is not administering those third-party carrier-managed disability benefits.

Impact of City of Detroit Collective Bargaining and Bankruptcy Pension Adjustments

Pursuant to Emergency Manager Order No. 30, the existing Component II defined contribution plan and defined benefit plan were frozen, preventing any future accruals or new members in Component II effective June 30, 2014.

The following changes became effective July 1, 2014, with the advent of Component I:

o The Hybrid Plan defined benefit plan commenced with mandatory contributions of 4 percent of base pay. The City contributes 5 percent of employee base pay, not including overtime;

o A new Hybrid Plan defined contribution plan for the Annuity Savings Fund. Employees may make voluntary Annuity Savings Fund contributions up to 7 percent of total after-tax pay. Interest will be credited at the actual net investment rate of return of DGRS, but will, in no event, be lower than 0 percent or higher than 5.25 percent; and

o The Hybrid Plan provides that future duty disability and non-duty disability retirement allowances for members who become disabled after July 1, 2014, moves to a commercial insurance program through the City.

Benefit Payments

Component I of the System exists to pay the benefits which its members have earned pursuant to benefits promised by the City with benefit accruals beginning July 1, 2014. Like Component II, the benefits in Component I are to be paid monthly, though, as noted above, DGRS had not completed full implementation of all of the administrative modules required to operate Component I as of the conclusion of fiscal year 2015.

In fiscal year 2015, employer contributions to Component I were $8.8 million, and mandatory employee contributions were approximately $7 million. Employees made voluntary contributions in fiscal year 2015 of approximately $5 million to their individual accounts. The Component I defined pension benefits accrued during fiscal year 2015 is approximately $10,000.

Contacting the General Retirement System's Management

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 employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's office or visit their website at www.rscd.org.

Hybrid Plan (Component I) of the General Retirement System of the City of Detroit

Statement of Fiduciary Net Position
June 30, 2015

Assets		
Cash and cash equivalents (Note 3)	$	50,797,728
Investments (Note 3) - Short-term investments		13,191,495
Receivables		3,598
Total assets		63,992,821
Liabilities		
Due to Detroit Water and Sewerage Department (Note 1)		29,300,000
Due to Legacy Plan (Component II) (Note 1)		14,514,334
Accrued liabilities and other		81,589
Total liabilities		43,895,923
Fiduciary Net Position - Restricted for pensions	**$**	**20,096,898**

The Notes to Financial Statements are an
Integral Part of this Statement.

Hybrid Plan (Component I) of the General Retirement System of the City of Detroit

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2015

Additions	
Investment income - Interest income	$ 20,690
Contributions:	
Employer	8,811,369
Employee	12,757,032
Total additions	21,589,091
Deductions	
Retirees' pension and annuity benefits	10,603
General and administrative expenses	1,481,590
Total deductions	1,492,193
Net Increase in Fiduciary Net Position Held in Trust	20,096,898
Fiduciary Net Position Restricted for Pensions - Beginning of year	-
Fiduciary Net Position Restricted for Pensions - End of year	**$ 20,096,898**

The Notes to Financial Statements are an Integral Part of this Statement.

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Hybrid Plan (Component I) of the General Retirement System of the City of Detroit:

Reporting Entity

The City of Detroit (the "City") sponsors the Pension Plan of the General Retirement System of the City of Detroit (the "System"), which is a contributory single-employer retirement plan. These financial statements represent one of two component plans that are part of The Combined Plan for the General Retirement System of the City of Detroit. This component, Component I or the Hybrid Plan, was effective starting July 1, 2014.

Component II is the legacy plan which is the original defined benefit plan,which includes a defined benefit component and a defined contribution component. Component II generally applies to benefits accrued by Members prior to July 1, 2014. On June 30, 2014, as a result of negotiations between the City and public employee unions, the existing plan benefit formulas were frozen and no new employees were allowed to earn benefits under the existing plans. The Emergency Manager issued Order #30 (General Retirement System of the City of Detroit) on June 30, 2014 which put these changes into effect. Except as specifically provided in the Combined Plan, benefits provided under Component II are frozen effective June 30, 2014.

As of July 1, 2014, all current and future employees now participate in the new hybrid pension plan, known as Component I. Active City employees who participated in the legacy plan will receive the benefits they have earned under the Retirement System through June 30, 2014 plus an additional benefit under the new hybrid plan formula, assuming all vesting requirements are met.

The Plan 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.

The financial statements for the System are also reported in the combined financial statements of the City of Detroit as a pension trust funds. The assets of the pension trust fund includes no securities of or loans to the City or any other related party.

Note 1 - Summary of Significant Accounting Policies (Continued)

Plan Sponsor Bankruptcy

In the past, the City of Detroit (the "plan sponsor") had experienced significant financial difficulty and liquidity concerns. In February 2013, a financial revenue team appointed by the Governor of the State of Michigan determined that a local government financial emergency existed in the City. In March 2013, the Governor appointed an emergency manager under PA 72 of 1990. In July 2013, the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan, the eligibility for which was approved in federal court in December 2013. Part of the federal court's ruling in December 2013 indicated that the bankruptcy status usurped whatever protections may be offered governmental pensions under the Michigan Constitution.

The bankruptcy proceedings continued through November 2014. On November 12, 2014, the United States Bankruptcy Court for the Eastern District of Michigan entered an order confirming the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (the "POA"). The effective date of the POA occurred on December 10, 2014 and the City exited bankruptcy at that time. The emergency manager was then released from his role at the City.

The POA specifies certain provisions pertinent to this Hybrid plan, including contributions and benefits.

Accounting and Reporting Principles

The Plan follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Basis of Accounting

The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, and demand deposits with a maturity of three months or less when aquired.

Investments in short-term investment funds are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Due to Detroit Water and Sewerage Department - This balance relates to an overpayment that was made into the Plan prior to June 30, 2015, which was remitted back to the Department in July 2015.

Due to Legacy Plan (Component II) - Component II is the legacy plan which is the original defined benefit plan, which includes a defined benefit component and a defined contribution component. The balance of $14,514,334 due to Component II relates to fiscal 2015 expenses, of approximately $1,500,000 paid by the legacy plan (Component II) on behalf of the hybrid plan (Component I) and the remainder relates to employer contributions for Component II that were transferred into Component I originally and subsequently transferred to Component II after June 30, 2015.

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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Change - In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Plan is currently evaluating the impact this standard will have on the financial statements when adopted, during the System's 2016 fiscal year.

Note 2 - Pension Plan Description

Plan Administration - Governance of the General Retirement System of the City of Detroit is set forth in Article I of Component I of the Combined Plan document adopted by the City of Detroit by its Emergency Manager, effective July 1, 2014, as amended and restated in December 2014. The System's governance provisions include requirements of the POA, such as establishment of the Investment Committee for at least 20 years, through 2034. The System's Board of Trustees and Investment Committee administer the Plan, which is a defined benefit and defined contribution pension plan that provides retirement benefits and survivor benefits for plan members and beneficiaries. Plan members include active employees, retirees, and beneficiaries from various departments within the City of Detroit. Benefit terms in Component I of the Combined Plan have been established by contractual agreements between the City and the employees' respective collective bargaining units. Future amendments are subject to the same process, however, pursuant to the POA, pension benefit terms presently expressed in the Combined Plan are not subject to amendment before June 30, 2023, unless amendment is required to maintain the tax-qualified status of the System. The obligation to contribute to and maintain Component I of the System is the responsibility of the City under Michigan law, and the benefit promises are the product of negotiations with the affected employees' collective bargaining units.

The Board is comprised of ten members. Five members are elected by the active membership to serve six-year terms. One member is elected by the retiree membership to serve a two-year term. One member is appointed by the Mayor of the City of Detroit from the citizens of the City to serve a six-year term. Three members serve ex-officio, these members being the Mayor of the City (or designee), the City treasurer, and one representative from the Detroit City Council. Expirations of terms of elected trustees are staggered.

The Investment Committee has five independent members appointed to initial terms with staggered expiration, which terms will all eventually become six-years. Two additional members, one active and one retired, serve on the Investment Committee based on appointment by the Board. The Investment Committee will be in place through at least December 2034.

Plan Membership - At June 30, 2014, the Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	-
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	4,881
Total	4,881

Note 2 - Pension Plan Description (Continued)

This Hybrid Plan (Component I) became effective on July 1, 2014. All former active members of the Legacy Plan (Component II) became active members of the new Hybrid Plan (Component I) as of that date. After July 1, 2014, active members will retain existing service credit in the Legacy Plan, but will only earn existing service credit in the new Hybrid Plan. Employees retiring during fiscal year 2015 only earned approximately $10,000 in benefits from the Hybrid Plan.

Benefits Provided - The Plan provides retirement and death benefits. Benefit terms under Component I are a product of negotiations between the City's former Emergency Manager and the employees' collective bargaining units. Pursuant to the POA and federal law, the benefit terms presently in force will remain unchanged through June 30, 2023, unless amendment is necessary to maintain the tax-qualified status of the Plan.

Employer Contributions - During fiscal year 2015, employer contributions are not actuarially determined but determined by the provisions of the Combined Plan detailed under Section 9.3, of Component I. Per Section 9.3, commencing July 1, 2014 and ending June 30, 2023, the City is required to contribute 5 percent of compensation of active members. A portion of the employer's annual contribution for each plan year as determined by the City shall be credited to the Rate Stabilization Fund reserve with the remainder allocated to the Pension Accumulation Fund reserve. During fiscal year 2015, the City and related entities contributed $8,811,369 into the Hybrid Plan. Beginning in 2024, the employer contributions will be actuarially determined based on the amount necessary to fund the plan on an actuarial basis.

The Schedule of City Contributions normally required in Required Supplemental Information has been excluded because, the Plan's contributions are determined by the provisions in the POA through fiscal year 2023 and therefore will not be actuarially determined.

Employee Contributions - Contribution requirements of plan members are established in Sections 9.3 and 10.1 of Component I of the Combined Plan. For the year ended June 30, 2015, the required active member contribution rate for employees was 4.0 percent of annual pay. Additionally, employees can make voluntary contributions of 3 percent, 5 percent or 7 percent of annual pay. Contributions into Component I began with the member's first payroll date occurring in August 2014. As such, any contributions received prior to August 1, 2014 were recorded into Component II. During fiscal year 2015, the Plan received mandatory and voluntary employee contrbutions of $12,757,032.

Note 2 - Pension Plan Description (Continued)

Fiscal Responsibility Provision - To safeguard the long-term actuarial and financial integrity of the Retirement System, in the event the funding level of Component I projected over a 5 year period falls below 100 percent, certain remedial actions are required as set forth in Section 9.5 of Component I of the Combined Plan, including elimination of COLA, transfers from the Rate Stabilization Fund reserve, to the Pension Accumulation Fund reserve and increases in mandatory employee contributions from 4 percent to 5 percent.

In the event the funding level of Component I is projected to fall below 80 percent, additional remedial actions are required including further increasing the mandatory employee contributions to 6 percent and the potential for reducing the retirement allowance.

Note 3 - Deposits and Investments

The Plan is authorized by Michigan Public Act 347 of 2012 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 in accordance with Public Act 196 of 1997 has authorized investments according to Michigan Public Act 347. The Plan's deposits and investment policies are in accordance with statutory authority.

As of June 30, 2015, the Plan invested in cash deposit accounts not subject to FDIC insurance and short-term investment funds.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices.

As of June 30, 2015, the Plan has $50,797,728 in cash deposit accounts and $13,191,495 in commingled short term investments for which credit risk is 'not rated'.

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. The average maturity of the Plan's investments is .08 years.

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. The investments of the Plan are not subject to foreign currency risk.

Note 4 - Pension Plan Investments - Policy and Rate of Return

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Investment Committee by a majority vote of its members. As of June 30, 2015 the assets for the Hybrid (Component I) plan were not invested in accordance with this policy, although subsequent to year end, these investments were commingled with the investments of Component II.

It is the policy of the board of trustees to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Investment Committees' adopted asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
Global equity	43%
Global multi-sector fixed	6%
Long duration fixed	2%
Absolute return fixed	4%
Private equity	8%
Real estate	10%
Hedge funds	5%
Global asset allocation/risk parity/real assets (liquid)	21%
Cash	1%

As of June 30, 2015 all of the Component I investments were in cash and short-term investment funds. However, in the future Component I and Component II investments will be commingled, using the investment strategy noted above.

Rate of Return - For the year ended June 30, 2015, the annual money-weighted rate of return on the Plan's investments, net of investment expense, was insignificant due to the nature of these deposits and short term investments.

Note 5 - Pension Plan Reserves

In accordance with the Combined Plan for the General Retirement System of the City of Detroit, Michigan, the following reserves are required to be segregated within the pension plan:

The accumulated mandatory employee contribution fund shall be the fund in which shall be accumulated the contributions of members to provide their retirement allowances. Upon the retirement, termination, or death of a member with a vested retirement allowance, the member's accumulated mandatory employee contributions shall be deemed to be part of the Pension Reserve which shall be used to pay the member's retirement Allowance.

The accumulated voluntary employee contribution fund shall be the fund in which shall be accumulated the voluntary after-tax contributions of members together with earnings thereon.

The pension accumulation fund shall be the fund in which shall be accumulated reserves for the retirement allowances and other benefits payable from that portion of the employer's annual contribution that is not credited to the rate stabilization fund and amounts transferred to Component I and from which shall be paid retirement allowances and other benefits on account of members. During fiscal year 2015, all employer contributions were directed by the City into the pension accumulation fund and no amounts were credited to the rate stabilization fund.

The rate stabilization fund shall be the fund which shall be credited with employer's annual contributions in excess of the amount of the employer's contribution which is credited to the pension accumulation fund and amounts transferred to Component I as provided in Section E-16(c) of Component II. See Note 7 for details on the transfer. During fiscal year 2015, no amounts were credited to the rate stabilization fund. Therefore, this reserve balance is zero.

The medical benefit fund shall be the fund which will be credited with contributions made for the purpose of funding medical benefits. During the year, no such contributions were made and therefore this reserve balance is zero.

The expense fund shall be the fund which will be credited any money provided by the employers to pay the administrative expenses of the Retirement System, and from which certain expenses incurred in connection with the administration and operation of the System will be paid. At year end, this reserve balance is zero as all employer contributions were credited to the pension accumulation fund.

Note 5 - Pension Plan Reserves (Continued)

The income fund shall be the fund to which all interest, dividends, and other income derived from the investments of Component I of the System will be credited. Transfers from the income fund will be made to credit earnings and losses to various reserves of the System in accordance with the provisions of Component I of the Combined Plan Document. Amounts credited to the income fund in excess of amounts needed to credit earnings and losses of the System as provided in Component I for any plan year shall be transferred to the pension accumulation fund and used to pay retirement allowances and other benefits on account of members. During fiscal year 2015, investment income was minimal and therefore this reserve balance at June 30, 2015 remains unfunded.

The balances of funded reserves as of June 30, 2015 were as follows:

	Amount Funded
Accumulated Mandatory Employee Contribution Fund	$ 7,070,298
Accumulated Voluntary Employee Contribution Fund	5,786,489
Pension Accumulation Fund	7,240,112

Note 6 - Net Pension Liability of the City

The net pension liability of the City has been measured as of June 30, 2015 based on benefits in force as of that date and is composed of the following:

Total pension liability	$ 24,587,822
Plan fiduciary net position	20,096,898
City's net pension liability	$ 4,490,924
Plan fiduciary net position as a percentage of the total pension liability	81.7 %

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015. The valuation used the following actuarial assumptions, some of which were different between the beginning of year (July 1, 2014) and the end of the year (June 30, 2015).

Fiscal year 2015 was the first year of existence for the Hybrid (Component I) Plan. Therefore, the total pension liability was $0 at the beginning of the year. The following are the significant assumptions:

Wage inflation assumption was 2% for five years, 2.5% for the next five years and 3% thereafter.

Note 6 - Net Pension Liability of the City (Continued)

The investment rate of return (net of pension plan investment expense, including inflation) applied to the beginning of year total pension liability was 7.2 percent as compared to 7.61percent which was the assumed long term rate of return as of the end of year. These rates were determined in accordance with generally accepted accounting principles. This should not be confused with the provisions in the plan of adjustment which established a 6.75 percent assumed rate of return for purposes of the various provisions within the plan; the Plan of Adjustment did not attempt to dictate the long term rate of return to be used for accounting purposes.

Based on an experience study from 2008-2013 issued in February 2015, the mortality table used to measure retired life mortality was 100 percent of the RP-2014 Blue Collar Annuitant Table set-forward one year for males and 100 percent of the RP-2014 Blue Collar Annuitant Table set-forward one year for females. The tables are projected to be fully generational, based on the 2-dimensional sex distinct mortality scale MP-2014.

Cost of living adjustments: This plan has a post retirement COLA feature known as the Variable Pension Improvement Factor ("VPIF") of a 2 percent simple COLA. It can be granted beginning July 1, 2018 only if the five-year projection shows the plan funded status at 100 percent based upon 6.75 percent future investment return. For purposes of the total pension laibility,the actuary assumed a 0.50 percent simple COLA beginning July 1, 2018 to model the potential average COLA over time. Had no COLA been assumed, the net pension liability would have been $3,787,286. Had the full 2 percent COLA been assumed, the net pension liability would have been $6,622,528.

There were no changes in benefit provisions during the year affecting the Total Pension Liability.

Other than mortality, the actuarial assumptions used in the June 30, 2014 valuation, to calculate the total pension liability as of June 30, 2015, were based on the results of an actuarial experience study for the period 2002-2007 modified as necessary to account for the difference in eligibility of this new plan.

Discount Rate - The discount rate used to measure the total pension liability at June 30, 2015 was 7.61 percent; however, the single discount rate used at the beginning of the year was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that System contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Note 6 - Net Pension Liability of the City (Continued)

Projected Cash Flows

Based on the above assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees both at the beginning of the year as well as at the end of the year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return as of June 30, 2015 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Global equity	6.19%
Global multi-sector fixed	2.70%
Long duration fixed	1.96%
Absolute return fixed	2.25%
Private equity	7.35%
Real estate	4.41%
Hedge funds	4.66%
Global asset allocation/risk parity/real assets (liquid)	5.15%
Cash	1.23%

Note 6 - Net Pension Liability of the City (Continued)

Sensitivity of the Net Pension Liability at June 30, 2015 to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.61 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.61 percent) or 1-percentage-point higher (8.61 percent) than the current rate:

	1% Decrease (6.61%)	Current Discount Rate (7.61%)	1% Increase (8.61%)
Net pension liability of the Plan	$ 7,551,424	$ 4,490,924	$ 1,940,584

Note 7 - Funding Commitments from the Legacy Pension Plan (Component II)

The plan documents for the Legacy Pension Plan (Component II) contain a provision for the transfer of certain excess investment returns to the new Hybrid Plan (Component I). In any plan year during the period beginning on or after July 1, 2014 and ending June 30, 2023, if the annual rate of return credited to member annuity savings fund accounts is less than the actual rate of return net of expenses of the Plan's invested assets for the second plan year preceding the plan year in which the annual rate of return is credited, the excess earned shall be transferred to the pension accumulation fund maintained under Component I of the Combined Plan and will be used to fund transition costs related to Component I. The transition cost is a measure of the liability that Component I of the Retirement System has at its inception due to the fact that members in Component I receive vesting and eligibility credit under Component I for service that was earned prior to July 1, 2014 and is otherwise credited to members under Component II. Such transition costs will be calculated by the Plan's actuary. This transfer will be calculated and transferred in the following year; therefore, any transfers based on the plan year ended June 30, 2015 will be calculated and transferred during the year ended June 30, 2016.

Required Supplemental Information

Hybrid Plan (Component I) of the General Retirement System of the City of Detroit

Required Supplemental Information
Schedule of Changes in the Plan's Net Pension Liability and Related Ratios for Component I
Current Fiscal Year

(Schedule is built prospectively upon implementation of GASB 67)

	2015
Total Pension Liability	
Service cost	$ 19,318,576
Interest	695,469
Changes in assumptions	(1,202,108)
Voluntary contributions	5,775,885
Net Change in Total Pension Liability	24,587,822
Total Pension Liability - End of year	**$ 24,587,822**
Plan Fiduciary Net Position	
Contributions - Employer	$ 8,811,369
Contributions - Employee	6,970,544
Net investment income	20,690
Administrative expenses	(1,481,590)
Voluntary contributions	5,775,885
Net Change in Plan Fiduciary Net Position	20,096,898
Plan Fiduciary Net Position - Beginning of year	-
Plan Fiduciary Net Position - End of year	**$ 20,096,898**
Plan's Net Pension Liability - Ending	**$ 4,490,924**
Plan Fiduciary Net Position as a % of Total Pension Liability	81.74 %
Covered Employee Payroll	$ 180,069,852
Plan's Net Pension Liability as a % of Covered Employee Payroll	2.5 %

Required Supplemental Information
Schedule of Investment Returns
Current Fiscal Year

	2015 *
Annual money-weighted rate of return, net of investment expense	N/A

* The plan started as of July 1, 2014. In 2015 all of the Plan's investments were in short-term deposits and investment funds and therefore the money-weighted rate of return was extremely insignificant during that year.

Changes in Assumptions

The discount rate used to calculate the June 30, 2015 total pension liability was 7.61 percent. The discount rate used to calculate the total pension liability as of June 30, 2014 was 7.20 percent.