Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit

Financial Report
with Supplemental Information
June 30, 2015

Legacy Pension Plan (Component II) 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
Legacy Pension Plan (Component II) of
the General Retirement System of the
City of Detroit

Report on the Financial Statements

We have audited the accompanying financial statements of the Legacy Pension Plan (Component II) 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 audit 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
Legacy Pension Plan (Component II) of
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Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Legacy Pension Plan (Component II) 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.

Emphasis of Matter

As explained in Note 1, the financial statements include investments valued at approximately $658,000,000 (31 percent of net position) at June 30, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers, general partners, real estate advisors, and other means. Our opinion has not been modified with respect to this matter.

As described in Note 1 and Note 8 to the financial statements, the City of Detroit had previously filed for Chapter 9 bankruptcy. The Eighth Amended Plan for Adjustment of Debts of the City of Detroit (the "POA") took effect on December 10, 2014. The System implemented the provisions made in the POA during fiscal year 2015. As a result of the POA, effective July 1, 2014 the "Combined Plan for the General Retirement System of the City of Detroit" (the "Combined Plan") was introduced. The Combined Plan consists of two components - Component I (new hybrid plan) and Component II (legacy plan). These financial statements report on Component II (legacy plan) only. Our opinion has not been modified with respect to this matter.

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.

To the Board of Trustees
Legacy Pension Plan (Component II) of
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Report on Summarized Comparative Information

We have previously audited the Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 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 prior year:

	Fiscal Year Ended	
	June 30, 2015	June 30, 2014
Total assets	$ 2,257,751,710	$ 2,068,439,919
Total liabilities	126,473,499	53,232,040
Fiduciary net position restricted for pensions	**$ 2,131,278,211**	**$ 2,015,207,879**
Net investment income	$ 93,092,290	$ 282,185,330
Contributions:		
Employee	609,073	10,241,761
Employer	87,346,421	25,126,131
State and Foundations	103,800,000	-
Total contributions	191,755,494	35,367,892
ASF recoupment	132,529,998	-
Other income	5,690,000	4,574,338
Total additions	423,067,782	322,127,560
Benefits paid to members and retirees:		
Retirees' pension and annuity benefits	253,522,892	253,683,194
Member annuity refunds and withdrawals	44,321,041	144,050,613
Total benefits paid	297,843,933	397,733,807
Benefits paid in excess of contributions	(106,088,439)	(362,365,915)
Ratio of contributions to benefits paid	64.38%	8.89%
Other expenses	7,556,822	8,207,828
Net increase (decrease) in fiduciary net position restricted for pensions	**$ 117,667,027**	**$ (83,814,075)**

Fund Overview, Membership, and Governance

The General Retirement System of the City of Detroit (DGRS or the "System") is a defined benefit pension plan and defined contribution plan 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"). 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 being reported within these financial statements. A new pension plan (the "Hybrid Plan," also referred to as "Component I") was created by the City on July 1, 2014, and is reported on separately.

DGRS exists to pay benefits to its members. Members of the System include active non-uniformed City employees, retirees, and their beneficiaries. Active members 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 City and active members have historically contributed to the System (the employee contributions were voluntary). Retirees, their beneficiaries, and disabled members are those currently receiving benefits.

Component II of DGRS is a relatively mature plan in that there are more members receiving current benefits than active members. As of June 30, 2014, in Component II there were 4,881 active members, with 12,026 members receiving benefits, and 2,728 terminated plan members entitled to, but not yet receiving benefits. 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. On October 19, 2014, the Emergency Manager issued Order No. 43, which amended and restated the Combined Plan. Before leaving office, the Emergency Manager on December 8, 2014 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.

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

The Board is comprised of 10 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.

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, 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 challenges that could arise if the City filed for bankruptcy protection.

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, 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 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.

The Pension Settlement, as part of the Plan of Adjustment, compromised pension claims and provided funding support for legacy pension benefit obligations under DGRS Component II from the State of Michigan and the Detroit Institute of Arts. 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.

For DGRS, with respect to Component II benefit adjustments, the Pension Settlement (for which benefit levels were and are contingent on other factors, including receipt of outside contributions), provided: for a loss of cost of living adjustments, or "escalators" (COLAs) paid after July 1, 2014; for a 4.5 percent cut to the remaining accrued pension benefit after the COLA loss; and, for DGRS members who participated in the Annuity Savings Fund plan between 2003 and 2013, subject to certain caps, recoupment of certain amounts of interest deemed by the City to be in "excess" of that which should have been credited to individual ASF accounts, referred to as "ASF Recoupment." ASF Recoupment, like other provisions of the Pension Settlement, was not optional. Most members will pay their ASF Recoupment by a monthly deduction from their future pension benefits for a set term of months, including interest calculated at 6.75 percent. All members were offered a lump-sum cash option, which was limited in the aggregate to $30 million in member recoupment. The Plan of Adjustment also included the possibility of restoration of certain pension benefit cuts, based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department as well as a new feature of Component II allowing restoration depending on the System's funding level over time.

Other components of implementation of the Plan of Adjustment proceeded between December 2014 and March 2015, and included dismissal of related litigation proceedings, including DGRS's appeal of the Bankruptcy Court's eligibility determination in the United States Court of Appeals for the Sixth Circuit. The process of implementing the Plan of Adjustment is expected to continue through 2016 and beyond, with monitoring, compliance, and other activity by DGRS, its Board of Trustees, and its Investment Committee. On December 1, 2014, DGRS provided its retirees and beneficiary members with applications for the Income Stabilization Program (the "ISF Program") established as part of the State Contribution Agreement, another facet of the Pension Settlement. The ISF Program, supported by City funds arising from an unlimited tax general obligation bonds settlement, is intended to ensure that the most financially vulnerable retirees and beneficiaries do not fall below the poverty line as a result of bankruptcy-related pension changes. The ISF Program was implemented March 1, 2015, along with other bankruptcy-related pension benefit changes.

As of March 1, 2015, less than three months after the effective date of the Plan of Adjustment, DGRS successfully implemented the vast majority of benefit changes required by the Plan, including the ISF Program coordinated in conjunction with the Michigan Department of Treasury. DGRS continues to implement the Plan of Adjustment, which includes ongoing compliance and additional reporting requirements by the Board and the Investment Committee, annual review of benefit levels, and essentially provides for a 40-year plan to close the DGRS legacy Component II underfunded liability. ASF Recoupment, in particular, is a notable facet of the Plan of Adjustment that will continue to be implemented as members apply for Component II pension benefits over time.

Contributions to the System

Historically, both the City and active employees have made regular contributions to the System, though employee contributions were optional before July 1, 2014. Basic pension and disability benefits have been funded through employer contributions plus investment earnings on those contributions. The required employer contributions have been 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. 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.

Prior to the filing of the Chapter 9 case, the City's General Fund stopped making payments related to unsecured funded debt and legacy liabilities, including payments to the System on behalf of most of DGRS's members. Notably, for some segments of DGRS's member population, such as those employees and retirees from the Detroit Library Commission, the Detroit Water and Sewerage Department, and the COBO Authority, employer contributions continued to be remitted to DGRS even after the Chapter 9 case was filed. These situations led to disputes in the Bankruptcy Court which were eventually resolved by the Plan of Adjustment.

When the City filed the Chapter 9 case, obligations owed by the City became potentially subject to compromise in the bankruptcy process. The pension claims of DGRS members were determined by the Bankruptcy Court to be included as unsecured obligations. The City's last General Fund employer contribution before the Chapter 9 case on behalf of employee and retiree groups not listed above was made on November 30, 2012. During fiscal year 2014, the City did not make any contributions to the System from the General Fund, but the Library, DWSD, and COBO Authority did remit payments. In the Chapter 9 case, DGRS filed a claim against the City for $66.6 million as of July 18, 2013, reflecting past due employer contributions with interest for fiscal years 2012 and 2013. This amount did not reflect the full unfunded actuarial accrued liability of the System.

Going forward, the obligations for contributions to support Component II of the System through 2023 are determined as fixed amounts by the provisions in the Plan of Adjustment. Pursuant to the Plan of Adjustment, the System is expected to receive contributions of a total of $718.6 million through fiscal year 2023. The Plan of Adjustment calls for the System to receive $98.8 million from the State of Michigan, $428.5 million from DWSD; $31.7 from UTGO settlement proceeds; $45 million from the DIA and its foundation donors; and $114.6 million from the other City-related employer contribution sources, such as the General Fund, Detroit Library Commission, and COBO Authority, over a 10-year period covering fiscal year 2014 through fiscal year 2023. After 2023, the City, and various other employer constituents such as the Library, DWSD, and COBO Authority, will retain responsibility for the full funding obligations of Component II of the System, consistent with Michigan law.

In fiscal year 2015, DGRS received from the City, its employer-related contribution sources, the State of Michigan, and the DIA and its foundation donors, all contributions required by the Plan of Adjustment.

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.

In Component II, active employees were previously allowed to voluntarily contribute 0 percent, 3 percent, 5 percent, or 7 percent of gross pay to the defined contribution plan (also referred to as the Annuity Savings Fund). Those employee contributions are maintained in separate accounts in the defined contribution plan (Annuity Savings Fund) solely for the benefit of the contributing employee. After 25 years of service, an active employee may elect to withdraw their accumulated contributions plus investment earnings. Upon retirement, an employee may elect to annuitize some of their Annuity Savings Fund balance, resulting in a greater monthly retirement benefit. Any portion of an employee's Annuity Savings Fund balance which is not annuitized upon retirement is refunded in a lump sum. As of June 30, 2014, due to the plan freeze, no additional benefit accruals are being earned in the Component II.

Additionally, as noted above, as a result of the Chapter 9 case, there was a 4.5 percent reduction to monthly pension payments and the elimination of cost of living adjustments (COLAs, also called escalators) made to pension benefits payable annually after July 1, 2014. DGRS members, retirees, and former employees who participated in the Annuity Savings Fund any time during July 1, 2003 and June 30, 2013 are also subject to ASF Recoupment.

Beginning March 1, 2015, certain DGRS members also received benefit pension cut restoration under the Income Stabilization Fund program administered by DGRS pursuant to the State Contribution Agreement based on eligibility and benefit payments calculated by the State of Michigan.

Note 8 to the notes to the financial statements for the prior fiscal year ended June 30, 2014 discusses, in further detail, the changes resulting from the Plan of Adjustment.

Benefit Payments

Component II of the System exists to pay the benefits which its members have earned pursuant to benefits promised by the City, subject to the Chapter 9 case benefit adjustments. Benefits are paid monthly. In fiscal year 2015, DGRS paid out $297.8 million in benefits, consisting of $253.5 million in benefits to retirees and beneficiaries plus $44.3 million in refunds of Annuity Savings Fund balances. The benefits and refunds represent approximately 14.0 percent of the net asset position of the System at year end. Employer, State and Foundations, and employee contributions were $191.7 million or 9.0 percent of the net position of the System. The excess of benefits over contributions of $106 million is funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

As of June 30, 2014, due to the freeze of the Legacy Plan, no additional benefit accruals are being earned in the Legacy Plan. The proceeds from ASF Recoupment will be transferred to the pension accumulation fund reserve (PAF) and used to fund the accrued benefits of Component II. In fiscal year 2015, DGRS recouped approximately $79.5 million ($55.5 million relates to deductions made directly from participant accounts and the remaining amount was collected through the lump-sum cash option) as part of pursuing its obligations under the Plan of Adjustment.

Asset Allocation

DGRS believes that the principal determinant of total fund investment performance over long periods of time is asset allocation. The DGRS asset allocation is built upon the foundation that the obligations of the System to pay the benefits promised to its members are very long-term obligations. Accordingly, the Investment Committee 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 Investment Committee 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.

Michigan law imposes 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. Additional restrictions are imposed on what fraction of the total assets of the System may be invested in foreign securities. The Board's asset allocation policies comply with applicable state statutes.

DGRS 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 DGRS 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%
GAA/Risk Parity/Real Assets (liquid)	21%
Cash	1%

Investment Results

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

GRS' total fund composite return for the year was 2.6 percent, net of fees and expenses using a time-weighted methodology. The Fund returned 9.5 percent for both its three-year and five-year annualized returns, net of fees and expenses. After multiple years of strong global equity market returns, performance across all asset classes was more subdued this year. Global equity and fixed-income markets experienced low to mid-single digit returns for the year, heavily influencing the overall fund's return. Global equities and fixed-income holdings exceeded 50 percent of total plan assets as of June 30, 2015. Moderating the fund's overall return for the year was a slowdown in emerging markets that resulted in negative returns for that sector for the year. Emerging markets represented approximately 10 percent of the total plan assets as of June 30, 2015.

As part of the resolution of the City of Detroit's Chapter 9 Bankruptcy Case, the discount rate assumption used to meet current and future benefit obligations was set at 6.75 percent through the period ending June 30, 2023. This discount rate assumption provided in the Chapter 9 Case does not purport to establish an investment return assumption or discount rate for purposes of, or in accordance with, generally accepted accounting principles. Although the Fund's return for this year fell below this assumption, the Fund's longer-term returns, which this assumption is intended to characterize, still exceeded this assumption.

Total plan returns, net of fees and expenses, for the recent prior fiscal years ended June 30 are shown below:

2014	14.5%
2013	11.7%
2012	0.1%
2011	19.7%
2010	4.5%

Money Weighted Rate of Return

In 2012, the Governmental Accounting Standards Board (GASB) released new accounting standards for public pension plans. One of the new GASB Statement No. 67 disclosure requirements is the annual money-weighted rate of return. A money-weighted rate of return (as opposed to the time-weighted rate of return discussed in the previous section) considers both the size and timing of cash flows over the course of the year to determine an internal rate of return (sometimes referred to as "IRR"). This return is calculated net of expenses and uses cash flows determined on a monthly basis. The DGRS money-weighted rate of return for the year using end-of-the-month cash flows was 2.4 percent.

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.

Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit

Statement of Fiduciary Net Position

	June 30, 2015		
	Defined Benefit Fund	Income Stabilization Fund	Total
Assets			
Cash and cash equivalents (Note 3)	$ 8,062,041	$ 1,596,695	$ 9,658,736
Investments - At fair value (Note 3):			
Short-term investments	123,689,645	-	123,689,645
Stocks	933,910,863	-	933,910,863
Commingled equity funds and hedge funds	78,104,960	-	78,104,960
Bonds	149,519,378	-	149,519,378
Mortgage-backed securities	21,673,758	-	21,673,758
Pooled investments	6,953,000	-	6,953,000
Equity interest in real estate	237,948,384	-	237,948,384
Private placements	314,454,028	-	314,454,028
Mortgage and construction loans	98,223,231	-	98,223,231
Receivables:			
Accrued investment income	2,695,631	-	2,695,631
Due from component I (Note 1)	14,514,334	-	14,514,334
Receivables from investment sales	18,153,918	-	18,153,918
Other receivable	2,526,219	-	2,526,219
ASF recoupment receivable (Note 1)	108,307,459	-	108,307,459
Notes receivable from participants	8,226,990	-	8,226,990
Restricted assets (Note 1)	32,500,000	-	32,500,000
Cash and investments held as collateral for securities lending (Note 3):			
Asset-backed securities	29,509,689	-	29,509,689
Repurchase agreements	2,831,248	-	2,831,248
Corporate floating rate	64,616,194	-	64,616,194
Capital assets (Note 1)	1,330,740	-	1,330,740
Total assets	2,257,751,710	1,596,695	2,259,348,405
Liabilities			
Claims payable to retirees and beneficiaries	977,559	-	977,559
Payables for investment purchases	24,516,982	-	24,516,982
Due to the City of Detroit	852,413	-	852,413
Amounts due broker under securities lending arrangements	96,518,699	-	96,518,699
Other liabilities	3,607,846	-	3,607,846
Total liabilities	126,473,499	-	126,473,499
Net Position - Restricted for pensions	**$ 2,131,278,211**	**$ 1,596,695**	**$ 2,132,874,906**

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

Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit

Statement of Changes in Fiduciary Net Position

	Year Ended			
	June 30, 2015			June 30, 2014
	Defined Benefit Fund	Income Stabilization Fund	Total	Total
Additions				
Investment income:				
Interest and dividend income	$ 24,823,984	$ -	$ 24,823,984	$ 24,387,241
Net appreciation in fair value of investments	78,421,363	37,312	78,458,675	265,745,590
Less investment expense	(11,017,368)	-	(11,017,368)	(8,947,895)
Net investment income	92,227,979	37,312	92,265,291	281,184,936
Securities lending income:				
Interest and dividends	288,204	-	288,204	161,964
Net unrealized gain on collateralized securities	538,795	-	538,795	838,430
Net securities lending income	826,999	-	826,999	1,000,394
Contributions:				
Employer	85,482,095	1,864,326	87,346,421	25,126,131
Employee contributions	609,073	-	609,073	10,241,761
State and Foundations (Note 2)	103,800,000	-	103,800,000	-
Total contributions	189,891,168	1,864,326	191,755,494	35,367,892
ASF Recoupment (Note 1)	132,529,998	-	132,529,998	-
Other income	5,690,000	-	5,690,000	4,574,338
Total additions	421,166,144	1,901,638	423,067,782	322,127,560
Deductions				
Retirees' pension and annuity benefits	253,217,949	304,943	253,522,892	253,683,194
Member refunds and withdrawals	44,321,041	-	44,321,041	144,050,613
General and administrative expenses	7,442,152	-	7,442,152	8,101,137
Depreciation expense	114,670	-	114,670	106,691
Total deductions	305,095,812	304,943	305,400,755	405,941,635
Net Increase (Decrease) in Net Position Held in Trust	116,070,332	1,596,695	117,667,027	(83,814,075)
Fiduciary Net Position Restricted for Pensions - Beginning of year	2,015,207,879	-	2,015,207,879	2,099,021,954
Fiduciary Net Position Restricted for Pensions - End of year	**$2,131,278,211**	**$ 1,596,695**	**$2,132,874,906**	**$2,015,207,879**

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 Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit:

Reporting Entity

The City of Detroit (the "City") sponsors the pension plans of the General Retirement System of the City of Detroit (the "Plan"), which is a contributory single-employer retirement plan.

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 the 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 Combined Plan, benefits provided under Component II are frozen effective June 30, 2014.

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.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

These financial statements for fiscal year 2015 represent Component II or the legacy plan only. Component II also includes the Income Stabilization Fund. The fund, which is part of Component II only and established as a special plan of adjustment provision, was established for the sole purpose of paying the Income Stabilization Benefits and Income Stabilization Benefits Plus to eligible pensioners. A portion of the funds received by the System from UTGO Bond Tax Proceeds is credited to the Income Stabilization Fund. The allocation is based on the "Aggregate Payments to Plan Assignees" included in the POA. After 2022, the Investment Committee may recommend to the Board that a portion or all of the assets that exceed income stabilization benefits (including Income Stabilization Benefits Plus) to be paid in the future be used to fund regular pension payments.

These financial statements include comparative columns for 2014. Such information is not meant to be a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended June 30, 2014.

Plan Sponsor Financial Condition - Impact on Plan

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 can impair whatever protections may be offered governmental pensions under the Michigan Constitution.

As of June 2013, the City had defaulted on approximately $36 million of pension contributions due to the System. The City's June 30, 2013 financial statements disclosed that a "substantial doubt about the City's ability to continue as a going concern" existed. During fiscal year 2014, the City did not pay any employer contributions into the System, despite the fact that there were actuarially required contributions.

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 Plan occurred on December 10, 2014. The Emergency Manager was then released from his role at the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

In fiscal year 2015, the contributions that were received by the System were made in accordance with the provisions of the POA. See Note 8 for significant changes that were implemented by the System under the POA.

Accounting and Reporting Principles

The System 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 Governmental 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 and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

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 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 $658,000,000 or 31 percent of the Plan's net position as of June 30, 2015 is not publicly traded and therefore does not always have a readily determinable market value. Of the alternatives held at June 30, 2015, the Plan classifies approximately 36 percent as real estate related investments, 15 percent as mortgage and construction loans, and the remainder is classified either as private placements or pooled investments.

Note 1 - Summary of Significant Accounting Policies (Continued)

Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. 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.

Due from Component I - Component I is the new hybrid plan that was established, effective July 1, 2014, under the provisions of the POA. The balance of $14,514,334 due from Component I relates to approximately $1.5 million of fiscal 2015 expenses paid by the legacy plan on behalf of the hybrid plan (Component I) in addition to employer contributions for Component II that were originally deposited within Component I and subsequently transferred to Component II after June 30, 2015.

Notes Receivable from Participants - Any active general employee who is or has been a participant in the 1973 defined contribution plan (annuity savings fund) may be eligible for the employee loan program. The minimum amount of the loan was established at $1,000. The maximum loan is the lesser of 50 percent of the member's account balance in the annuity saving fund or $10,000. Members can borrow as either a general purpose loan payable in one to five years or a residential loan payable in 1 to 15 years. A member can have only two outstanding loans. The balance of these loans for the year ended June 30, 2015 was $8,226,990, measured at the unpaid principal balance plus any accrued but unpaid interest. Participant notes receivable are written off when deemed uncollectible.

Note 1 - Summary of Significant Accounting Policies (Continued)

ASF Recoupment Receivable - For members who elected to make employee contributions into the defined contribution-style program, referred to as the annuity savings fund (ASF), between July 1, 2003 and June 30, 2013, the POA called for recoupment of amounts that the City calculated were "excess interest" credited to individual ASF accounts. In 2011, City Council adopted an ordinance which limited ASF interest credits to the Plan's net investment return, with a cap of 7.9 percent and a floor of 0 percent. The POA calculation of "excess interest" applies the interest formula in the 2011 Ordinance to the July 1, 2003 - June 30, 2013 recoupment period with a 20 percent cap on the highest balance in this given period. The recoupment amount is also capped at 15.5 percent of the monthly pension check. The City offered both a limited lump sum or monthly payment option. Repayment of these excess interest amounts is not optional. Effective January 2, 2015, the Plan effected recoupment for any member who had an annuity savings fund balance available, which resulted in direct recoupment of approximately $55.4 million. This results in a transfer out of the annuity reserves and into the pension accumulation fund reserve; overall, this direct recoupment did not result in new monies into the Plan. However, during fiscal year 2015, the Plan did accrue for approximately $132.4 million additional to be recouped, of which approximately $24.2 million was collected prior to June 30, 2015. The remaining amounts will be collected, with 6.75 percent interest, as a reduction to monthly pension benefits for those with recoupment balances outstanding.

Restricted Assets - During the year, the Plan entered into a collateral maintenance and security agreement whereby the Plan agreed to set aside $32,500,000 as collateral in exchange for a bank backing on debt related to one of its investments. At June 30, 2015, this amount has been shown as a restricted asset.

Capital Assets - Capital assets for the Plan include land, 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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Change - In February 2015, the Governmental Accounting Standards Board (GASB) issued 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 System 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 - The System's governance was modified in December 2014 as part of the City's bankruptcy plan. The System's board of trustees and Investment Committee administer the General Retirement System of the City of Detroit Pension Plan - a single-employer defined benefit and defined contribution pension plan that provides retirement benefits, as well as survivor and disability benefits, for plan members and beneficiaries. Plan members include active employees, retirees, and beneficiaries from various departments within the City of Detroit. Benefit terms have been established by contractual agreements between the System and the employees' collective bargaining unit, as modified by the POA. Future amendments are subject to the same process. The obligation to contribute to and maintain the System was established by the City Charter and negotiations with the employees' collective bargaining unit.

The Board is comprised of 10 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.

Note 2 - Pension Plan Description (Continued)

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

Inactive plan members or beneficiaries currently receiving benefits	12,026
Inactive plan members entitled to but not yet receiving benefits	2,728
Active plan members	4,881
Total	19,635

As of June 30, 2014, the Plan has been frozen. As of that date, no new participants were allowed to enter the Plan and no new benefit accruals were allowed for existing participants.

Benefits Provided - The System provides retirement, disability, and death benefits. Benefit terms had been established by negotiations between the City Council and the employees' collective bargaining unit and subject to amendment by the City Council. Further changes to benefits were provided for under the POA.

Contributions - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, in the past, the System had retained an independent actuary to determine the annual contribution. The actuarially determined rate was the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. However, until 2024, contributions are based on specific provisions in accordance with the Plan of Adjustment.

The City filed for bankruptcy in 2013 and 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. Going forward, the obligation for the City to contribute to the System will be determined by the provisions in the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit. Please read Note 8 for further information.

Employer Contributions - During fiscal year 2015, employer contributions are not actuarially determined but determined by the provisions of the POA detailed under Exhibit II.B.3.r.ii.A. Included within contributions in Component II are contributions from the Foundation for Detroit's Future (the "Foundation") in the amount of $5,000,000 and contributions from the State of Michigan in the amount of $98,800,000 along with $4.4 million from Unlimited Tax General Obligation bonds (UTGO) and approximately $81 million of contributions from the City and related entites. Employer contributions were also made into the Income Stabilization Fund for $1,864,326 from the UTGO proceeds.

Note 2 - Pension Plan Description (Continued)

Employee Contributions - Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2015, there were minimal employee contributions into Component II, as the Plan was frozen as of June 30, 2014. Effectively, employee contributions were allowed only until August 1, 2014.

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.

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate risks, market, 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 position.

The Plan's cash and investments are subject to various risks, 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 Plan's deposits may not be returned to it. The Plan does not have a deposit policy for custodial credit risk. Approximately $11.1 million of the Plan's checking account balances were uninsured and uncollateralized at June 30, 2015. The Plan 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 Plan 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 Plan's investment policy does not restrict investment maturities.

Note 3 - Deposits and Investments (Continued)

At June 30, 2015, the average maturities of debt investments broken down by year are as follows:

Investment Type	Fair Value (in thousands)	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Government	$ 28,157	$ 651	$ 2,952	$ 5,827	$ 18,727
Mortgage backed	2,805	492	-	276	2,037
Treasuries	25,423	4,393	4,920	7,618	8,492
Corporate	65,608	7,142	16,913	32,190	9,363
Private placement	34,377	4,635	4,134	15,701	9,907
State and local obligations	430	-	-	-	430
Commercial mortgages	1,197	131	-	200	866
Mortgages	97,241	97,241	-	-	-
Construction loans	982	278	704	-	-
Term loans *	3,631	-	522	2,298	811
Total	$ 259,851	$ 114,963	$ 30,145	$ 64,110	$ 50,633

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

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 credit quality ratings of debt securities (other than those guaranteed by the U.S. government) as rated by Moody are as follows:

Investment Type and Fair Value ($000)	AAA	AA	A	BAA	BA	B	CAA	CA	NR
U.S. government	$ 5,966	$ 1,735	$ 2,603	$ 1,079	$ 638	$ -	$ -	$ -	$ 13,337
Corporate	78	3,222	9,692	11,652	17,049	16,724	4,185	40	2,965
Commercial mortgages	54	-	131	91	200	-	508	-	212
Commingled bond fund	-	-	-	-	-	-	-	-	17,139
Mortgage backed	1,142	252	708	106	-	-	-	-	598
Treasuries, including futures	25,422	-	-	-	-	-	-	-	-
Private placement	4,039	2,063	3,991	2,350	6,765	7,450	936	-	6,871
State and local obligation	-	179	251	-	-	-	-	-	-
Term loans	-	-	-	811	1,005	882	933	-	-
Total	$ 36,701	$ 7,451	$ 17,376	$ 16,089	$ 25,657	$ 25,056	$ 6,562	$ 40	$ 41,122

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 Plan does not restrict the amount of investments in foreign currency.

Note 3 - Deposits and Investments (Continued)

At June 30, 2015, the following deposits and securities are subject to foreign currency risk (in thousands):

	Fixed Income	Equity	Cash	Forward Contracts (Including Payable/ Receivable)
Australian Dollar	$ 1,411	$ 13,854	$ 728	$ 3,153
Brazilian Real	1,662	2,158	12	143
British Pound Sterling	3,777	8,609	28	(3,837)
Canadian Dollar	-	6,812	162	8,282
Chilean Peso	-	-	-	1,380
Czech Koruna	-	839	-	-
Danish Krone	-	1,636	19	1,688
Euro Currency	3,802	98,378	1,863	(15,199)
Hong Kong Dollar	-	1,711	-	-
Hungarian Forint	637	1,636	19	1,688
Indian Rupee	-	-	15	776
Indonesian Rupiah	-	627	34	-
Israeli Shekel	-	-	6	619
Japanese Yen	-	7,730	16	-
Malaysian Ringgit	556	-	3	-
Mexican Nuevo Peso	4,267	-	-	4
New Taiwan Dollar	-	2,538	-	-
New Turkish Lira	-	1,882	-	-
New Zealand Dollar	630	5,041	-	(547)
Norwegian Krone	-	4,339	4	597
Polish Zloty	425	263	12	-
Philippines Peso	692	-	-	-
South African Rand	508	1,556	-	-
Singapore Dollar	-	3,343	-	-
South Korean Won	844	2,676	-	-
Swedish Krona	-	2,401	-	627
Swiss Franc	-	2,343	24	-
Ukraine Hryvana	-	1,187	-	-
Total	$ 19,211	$ 171,559	$ 2,945	$ (626)

Note 3 - Deposits and Investments (Continued)

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the Plan lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Plan'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 102 percent of the market value of the loaned securities.

At June 30, 2015, the collateral provided was 102.46 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.

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, 2015 was 33 days. 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, 2015, 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, 2015 were $96,518,699 and $94,203,405, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2015; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. governments	$ 1,885,215
U.S. equities	80,959,859
U.S. corporates	8,755,156
Non-U.S. equities	2,603,186
Total	$ 94,203,416

Note 3 - Deposits and Investments (Continued)

The fair market value of collateral of the securities lending pool at June 30, 2015 was $96,957,131. The investments were in asset-backed securities, repurchase agreements, and U.S. corporate securities (floating rate). Approximately 48 percent of these securities had a duration less than a year, 47 percent had a duration between one and three years, and 5 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2015 as rated by S&P are as follows:

Ratings		Amount
AAA		$ 28,797,238
AA		31,963,969
A		28,373,099
CCC		3,563,407
D		1,418,475
NR		2,840,943
	Total	$ 96,957,131

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 board of trustees by a majority vote of its members. 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 board of trustees' 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%

Note 4 - Pension Plan Investments - Policy and Rate of Return (Continued)

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 2.4 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 5 - Pension Plan Reserves

In accordance with State law, the following reserves are required to be segregated within the pension plan:

Annuity Reserve Fund - The annuity reserve fund is an accumulation of transfers that is made from the annuity savings 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.

Pension Reserve Fund - The pension reserve fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the pension accumulation fund. The actuarially determined transfer is still pending for FY 2015.

The employee reserve (Annuity Savings Fund or "ASF") is credited as employee contributions are received throughout the year; the Plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate approved by the Board. During fiscal year 2015, the Board approved the interest rate at 5.25 percent. Eligible active members may elect to withdraw their accumulated (annuity) contributions plus investment earnings. Upon retirement, a member can elect to annuitize or receive a lump sum of their accumulated contribution and interest earnings. When an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions, the balance is transferred to the annuity reserve fund. See Note 8 for disclosure of significant changes to the ASF going forward.

The pension accumulation fund is the fund which will accumulate reserves for the pensions and other benefits payable from the contributions made by the City including various departments thereof, and certain third parties pursuant to the POA and from which pensions and other benefits will be paid on account of members with prior service credit, and transfers as provided in this Section E-18. Contributions to the pension accumulation fund from the effective date of the POA through fiscal year 2023 shall be made only in the amounts and from the sources identified in the POA.

Note 5 - Pension Plan Reserves (Continued)

The expense fund is the fund which will be credited with all money provided by the City to pay the administrative expenses of the System, and from which all the expenses necessary 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.

The income fund shall be the fund to which all interest, dividends, and other income derived from the investments of Component II 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 II 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 II 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, the income fund reserve was not utilized and all investment income credited to the pension accumulation fund.

The balances of the reserve accounts as of June 30, 2015 are included in the table below. The reserve balances as of June 30, 2015 shown below do not include the current year transfer amount related to fiscal year 2015 retirements for which amounts are transferred from the pension accumulation fund to the pension reserve fund.

Annuity Savings Fund	$ 187,025,888
Pension Reserve Fund	2,011,542,892
Annuity Reserve Fund	22,882,189
Pension Accumulation Fund	(90,172,758)

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	$ 2,957,667,039
Plan fiduciary net position	2,131,278,211
City's net pension liability	$ 826,388,828
Plan fiduciary net position as a percentage of the total pension liability	72.03 %

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

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, which were different between the beginning of year (July 1, 2014) and the end of the year (June 30, 2015), as follows:

To calculate the beginning of year total pension liability, the following significant assumptions were made:

Wage inflation	N/A	
Salary increases	N/A	No inflation assumption or salary increases due to plan freeze as of 6/30/14
Investment rate of return	7.2%	net of pension plan investment expense, including inflation

To calculate the total pension liability as of June 30, 2014, the mortality assumption was changed to the RP-2014 Blue Collar Mortality Tables, Employees and Health Annuitants, set forward one year for males and one year for females with fully generational mortality projections using the two-dimensional Mortality Improvement Scale MP-2014.

To calculate the end of year total pension liability, the following significant assumptions were made:

Due to the plan freeze, pay was not assumed to increase in the future and no inflation assumption was utilized. The investment rate of return (net of pension plan investment expense, including inflation) applied to the end of year total pension liability was 7.61 percent.

The mortality table used to measure retired life mortality was 100 percent of the RP-2014 Blue Collar Annuitant Table for set-forward 1 year for males and 100 percent of the RP-2014 Blue Collar Annuitant Table set-forward 1 year for females. The tables are projected to be fully generational, based on the 2-dimensional sex distinct mortality scale MP-2014.

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 from July 1, 2008 to June 30, 2013.

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

Cost of living adjustments: For beginning of year calculations of the total pension liability, for certain active members, depending upon bargaining group, benefits are increased annually by 2.25 percent of the original pension amounts at retirement. For end of year calculations of the total pension liability, COLA has been eliminated in accordance with the plan of adjustment.

Attribution period: As addressed more fully in Note 8, as of June 30, 2014, the plan was frozen such that no new benefit accruals were allowed and no new members could join. Starting July 1, 2014, the participants in this legacy plan (Component II) will now be earning benefits under a newly created defined benefit plan (Component I). GASB Statement No. 67 requires that the service costs of all pensions be attributed through all assumed exit ages, through retirement. Neither GASB Statement No. 67 nor any other GASB standard has set forth guidance specifically related to frozen plans with successor plans in place. Absent any guidance to the contrary, due to the status as a frozen plan combined with the fact that individuals are now earning service in a new defined benefit pension plan, the retirement date for purposes of attribution was assumed to be June 30, 2014 for all members. Therefore, the total pension liability at June 30, 2015 is equal to the present value of projected benefit payments.

Note that the long-term assumed rates of return used for purpose of the GASB Statement No. 67 valuations 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.

Discount Rate - The discount rate used to measure the total pension liability as of 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 note, 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 1percentage 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	$ 1,087,645,854	$ 826,388,828	$ 605,720,872

Note 7 - Commitments

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, 2015, the remaining capital funding commitment for the System is approximately $42 million.

In addition, 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 ending June 30, 2016.

Note 8 - City of Detroit's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan

In March 2013, after enduring years of financial difficulty, the City of Detroit filed for bankruptcy protection. The Eighth Amended Plan for Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") was 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 pension claims and provided funding support for legacy pension benefit obligations under the General Retirement System of the City of Detroit (DGRS) Component II from the State of Michigan and the Detroit Institute of Arts. 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.

For DGRS, with respect to Component II benefit adjustments, the Pension Settlement (for which benefit levels were and are contingent on other factors, including receipt of outside contributions), provided for:

- A loss of cost of living adjustments, or "escalators" (COLAs) paid after July 1, 2014;
- A 4.5 percent cut to the remaining accrued pension benefit after the COLA loss;
- For DGRS members who participated in the Annuity Savings Fund plan between 2003 and 2013, subject to certain caps, recoupment of certain amounts of interest deemed by the City to be in "excess" of that which should have been credited to individual ASF accounts, referred to as "ASF Recoupment." ASF Recoupment, like other provisions of the Pension Settlement, was not optional. Most members will pay their ASF Recoupment by a monthly deduction from their future pension benefits for a set term of months, including interest calculated at 6.75 percent. All members were offered a lump-sum cash option, which was limited in the aggregate to $30 million in member recoupment.
- The possibility of restoration of certain pension benefit cuts, based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department as well as a new feature of Component II allowing restoration depending on the System's funding level over time.

Note 8 - City of Detroit's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan (Continued)

- An Income Stabilization Program (the "ISF Program"), which was established as part of the State Contribution Agreement, another facet of the Pension Settlement. The ISF Program, supported by City funds arising from an unlimited tax general obligation bonds settlement, is intended to ensure that the most financially vulnerable retirees and beneficiaries do not fall below the poverty line as a result of bankruptcy-related pension changes

- The POA also discusses a "Restoration Plan". Terms of the pension restoration are contained in "Exhibit II.B.3r.ii.C" of the POA and the terms govern how accrued pensions, including COLA benefits that were reduced as a part of the POA shall be restored over the 30-year period following the Confirmation Order. The Investment Committee will supervise the restoration process in accordance with the restoration plan. The restoration plan shall be deemed a part of Component II. The funding levels have not been attained yet as of June 1, 2015 for the restoration process to initiate.

Going forward, the obligations for contributions to support Component II of the System through 2023 are determined as fixed amounts by the provisions in the Plan of Adjustment. Pursuant to the Plan of Adjustment, the System is expected to receive contributions of a total of $718.6 million through fiscal year 2023. The Plan of Adjustment calls for the System to receive $98.8 million from the State of Michigan, $428.5 million from DWSD; $31.7 from UTGO settlement proceeds; $45 million from the DIA and its foundation donors; and $114.6 million from the other City-related employer contribution sources, such as the General Fund, Detroit Library Commission, and COBO Authority, over a 10-year period covering fiscal year 2014 through fiscal year 2023. After 2023, the City, and various other employer constituents such as the Library, DWSD, and COBO Authority, will retain responsibility for the full funding obligations of Component I of the System, consistent with Michigan law.

In fiscal year 2015, DGRS received from the City, its employer-related contribution sources, the State of Michigan, and the DIA and its foundation donors, all contributions required by the Plan of Adjustment.

As of March 1, 2015, less than three months after the effective date of the Plan of Adjustment, DGRS successfully implemented the vast majority of benefit changes required by the Plan, including the ISF Program coordinated in conjunction with the Michigan Department of Treasury.

Note 8 - City of Detroit's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan (Continued)

DGRS continues to implement the Plan of Adjustment, which includes ongoing compliance and additional reporting requirements by the Board and the Investment Committee, annual review of benefit levels, and essentially provides for a 40-year plan to close the DGRS legacy Component II underfunded liability. ASF Recoupment, in particular, is a notable facet of the Plan of Adjustment that will continue to be implemented as members apply for Component II pension benefits over time.

Required Supplemental Information

Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit

Required Supplemental Information
Schedule of Changes in the Plan Net Pension Liability and Related Ratios
Last Two Fiscal Years

(Schedule is built prospectively upon implementation of GASB 67)

	2015	2014
Total Pension Liability		
Service cost	$ -	$ 32,736,019
Interest	263,007,329	242,611,073
Changes in benefit terms	(732,535,007)	(113,311,571)
Differences between expected and actual experience	24,644,530	-
Changes in assumptions	(101,559,893)	(271,190,194)
Benefit payments, including refunds	(297,538,991)	(397,733,807)
Net Change in Total Pension Liability	(843,982,032)	(506,888,480)
Total Pension Liability - Beginning of year	3,801,649,071	4,308,537,551
Total Pension Liability - End of year	**$ 2,957,667,039**	**$ 3,801,649,071**
Plan Fiduciary Net Position		
Contributions - Employer, State, and Foundation	$ 189,282,094	$ 25,126,131
Contributions - Employee	609,073	10,241,761
Net investment income	93,054,981	289,789,607
Administrative expenses	(4,617,194)	(11,237,767)
Benefit payments, including refunds	(297,538,991)	(397,733,807)
Other additions (includes ASF recoupment)	135,280,369	-
Net Change in Plan Fiduciary Net Position	116,070,332	(83,814,075)
Plan Fiduciary Net Position - Beginning of year	2,015,207,879	2,099,021,954
Plan Fiduciary Net Position - End of year	**$ 2,131,278,211**	**$ 2,015,207,879**
Plan's Net Pension Liability - Ending	**$ 826,388,828**	**$ 1,786,441,192**
Plan Fiduciary Net Position as a % of Total Pension Liability	72.06 %	53.01 %
Covered Employee Payroll	$ 188,210,536	$ 238,669,871
Plan's Net Pension Liability as a % of Covered Employee Payroll	439.1 %	748.5 %

Pension Plan of the General Retirement System of the City of Detroit

Required Supplemental Information
Schedule of City Contributions
Last Ten Fiscal Years

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	N/A	$ 72,643,307	$ 62,297,432	$ 64,065,214	$ 55,138,044	$ 37,338,960	$ 41,395,719	$ 43,168,448	$ 41,444,808	$ 42,799,581
Contributions in relation to the actuarially determined contribution	N/A	25,126,131	26,515,782	64,065,214	55,138,044	37,338,960	41,395,719	43,168,448	41,444,808	58,162,088
Contribution deficiency (excess)	**N/A**	**$ 47,517,176**	**$ 35,781,650**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$(15,362,507)**
Covered employee payroll	N/A	$ 238,669,871	$ 213,291,083	$ 257,992,240	$ 303,379,482	$ 334,343,506	$ 357,072,833	$ 368,470,990	$ 361,701,481	$ 361,151,456
Contributions as a percentage of covered employee payroll	N/A	10.5 %	12.4 %	24.8 %	18.2 %	11.1 %	11.6 %	11.7 %	11.5 %	16.1 %

*The contributions starting with fiscal year 2015 were determined by the provisions of the POA; the contributions were not actuarially determined and therefore not subject to disclosure in accordance with GASB 67 within this schedule.

Notes to Schedule of Plan Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date — N/A - Starting in FY 2015, contributions are not actuarially determined.

Methods and assumptions used to determine contribution rates

Actuarial cost method

Amortization method

Remaining amortization period

Asset valuation method

Inflation

Salary increases

Investment rate of return

Retirement age

Mortality

Other information

Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit

Required Supplemental Information
Schedule of Investment Returns
Last Ten Fiscal Years

	2015	2014
Annual money-weighted rate of return, net of investment expense	2.4 %	16.3 %

* GASB Statement No. 67 was implemented June 30, 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

Benefit Changes

As of June 30, 2014, the pension plan is frozen. No new employees are allowed to participate in the plan. All benefits for actives are frozen as of June 30, 2014 based on service and average final compensation accrued as of that date. As of June 30, 2015, benefits were reduced by 4.5 percent and the cost of living adjustments were eliminated.

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.