

Police and Fire Retirement System of the City of Detroit

**Financial Report
with Supplemental Information
June 30, 2009**

Police and Fire Retirement System of the City of Detroit

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Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Police and Fire Retirement System of the City of Detroit (the "System") as of June 30, 2009 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2008 financial statements and, in our report dated December 11, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police and Fire Retirement System of the City of Detroit as of June 30, 2009 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As explained in Note 1, the financial statements include investments valued at approximately \$985,000,000 (32 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods which may include information provided by investment managers, general partners, real estate advisors, and other means.

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

As explained in Note 3, the System has approximately \$80,000,000 of real estate-related investments, most of which were in default and have been restructured, that are ultimately guaranteed by one organization whose financial condition at this point in time is uncertain. If the underlying investments were to completely default, it is uncertain how much the System would ultimately realize.

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

Plante & Moran, PLLC

December 14, 2009

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required and other supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required and other supplemental information that further explain and support the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the two prior years:

	Fiscal Year Ended		
	June 30, 2009	June 30, 2008	June 30, 2007
Total assets	\$ 3,661,876,658	\$ 4,992,704,319	\$ 5,611,982,265
Total liabilities	<u>609,716,040</u>	<u>1,018,055,585</u>	<u>1,130,632,364</u>
Assets held in trust for pension benefits	<u>\$ 3,052,160,618</u>	<u>\$ 3,974,648,734</u>	<u>\$ 4,481,349,901</u>
Net investment (loss) income	\$ (712,999,787)	\$ (300,049,097)	\$ 644,201,339
Contributions:			
Employee	10,902,956	10,299,360	10,043,736
Employer	<u>36,151,057</u>	<u>41,113,934</u>	<u>57,423,366</u>
Total contributions	47,054,013	51,413,294	67,467,102
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	239,744,214	231,623,462	225,249,848
Member annuity refunds and withdrawals	<u>12,395,300</u>	<u>22,304,141</u>	<u>36,708,695</u>
Total benefits paid	<u>252,139,514</u>	<u>253,927,603</u>	<u>261,958,543</u>
Benefits paid in excess of contributions	(205,085,501)	(202,514,309)	(194,491,441)
Ratio of benefits paid to contributions	5.4	4.9	3.9
Other expenses	<u>4,402,828</u>	<u>4,137,761</u>	<u>3,744,225</u>
Net (decrease) increase in net assets	<u>\$ (922,488,116)</u>	<u>\$ (506,701,167)</u>	<u>\$ 445,965,673</u>

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Fund Overview, Membership, Governance

The Police and Fire Retirement System of the City of Detroit (DPFRS or the "System") is a defined benefit pension plan and defined contribution plan. DPFRS exists to pay benefits to its active members, retirees, and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Both the employer (the City of Detroit) and active members contribute to the System.

DPFRS is a relatively mature plan in that there are more retirees and beneficiaries receiving current benefits than active members. As of June 30, 2009, membership of the System consisted of 4,089 active members plus 8,464 members receiving benefits plus 54 terminated plan members entitled to, but not yet receiving, benefits.

DPFRS is governed by an 11-member board of trustees (the "Board"). Six members of the Board are elected by the active membership to serve three-year terms. Expirations of terms of elected trustees are staggered. Five members serve ex-officio, these members being the mayor of the City of Detroit (or designee), the city treasurer (or deputy treasurer), one representative from the Detroit City Council, the chief of police (or designee), and the fire commissioner (or designee).

Contributions to the System

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

The required employer contributions are determined by the System's actuaries using the entry age normal cost method. Assumptions used by the actuaries are subject to experience testing every five years.

Active employees contribute 5 percent of pay up to the date at which they are eligible for retirement. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. Employee annuity savings fund accounts are credited with investment earnings equal to the rate of return earned by the System subject to a minimum earnings of 0 percent. An active employee may elect to withdraw their accumulated contributions plus investment earnings once they are eligible for retirement.

Police and Fire Retirement System of the City of Detroit

Management’s Discussion and Analysis (Continued)

Benefits Paid

The System exists to pay the benefits which its members have earned. DPFRS paid out \$252 million in benefits during the year consisting of \$240 million in benefits to retirees and beneficiaries plus \$12 million in refunds of annuity savings fund balances. This represents approximately 8.1 percent of the net assets of the System as of June 30, 2009. Employer and employee contributions were \$47 million or 1.5 percent of the assets of the System. The excess of benefits over contributions is funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

Asset Allocation

The Board believes that the principal determinant of total fund investment performance over long periods of time is asset allocation. The DPFRS asset allocation is built upon the foundation that the obligations of DPFRS to pay the benefits promised to its members are very long-term obligations. Accordingly, the Board must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years. The Board must also balance the desire to achieve long-term gains with the requirements of having to raise the cash to fund significant benefit payments every month.

DPFRS has established asset allocation policies which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the Board’s asset allocation as of June 30, 2009:

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

State statutes impose limitations on what fraction of the total assets of the System may be invested in assets other than government bonds, investment grade bonds, and certain mortgages. The Board’s asset allocation policies comply with these limitations.

Police and Fire Retirement System of the City of Detroit

Management's Discussion and Analysis (Continued)

Investment Results

Effective with the fiscal year commencing July 1, 2003, DPFRS acquired the capability to calculate investment results on an AIMR-compliant, time-weighted, GIPS method basis. This capability is utilized to calculate investment results at the total fund composite, asset class composite, managed account, sector, and individual security level. Investment results calculated for prior periods at the total fund composite level reflected dollar-weighted returns consistent with the methods utilized by the System's actuaries. Returns presented herein have been determined using the AIMR-compliant, time-weighted, GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

Total Fund Composite

The DPFRS total fund composite return for the year was -14.8 percent. Although negative returns are disappointing, periods of negative returns are nevertheless inevitable in the context of the System's allocation to equities. Returns for recent fiscal years ended June 30 are shown below:

2008	-6.3
2007	17.4
2006	11.5
2005	8.2
2004	15.0
2003	6.6

Contacting the Police and Fire Retirement System

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System's accountability for the money it receives from city and employee contributions. If you have questions about this report, or need additional information, we welcome you to contact the System's offices.

Police and Fire Retirement System of the City of Detroit

Statement of Plan Net Assets June 30, 2009 (with comparative totals for June 30, 2008)

	2009	2008
Assets		
Cash (Note 3)	\$ -	\$ -
Investments - At fair value (Note 3):		
Short-term investments	9,030,732	79,611,369
Stocks	1,335,973,209	1,892,223,470
Bonds	623,343,397	749,121,559
Mortgage-backed securities	65,573,488	124,087,556
Mortgage and construction loans	173,443,640	191,379,256
Equity interest in real estate	456,350,806	462,270,219
Real estate investment trusts held by custodian	22,079,163	32,853,730
Pooled investments	253,585,160	289,404,783
Private placements	102,431,667	71,379,481
Accrued investment income	17,095,971	19,973,611
Contributions receivable	31,395,781	98,537,300
Receivables from investment sales	53,534,460	61,582,557
Other accounts receivable	666,362	632,428
Capital assets (Note 1)	1,330,348	2,194,751
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	50,634,125	149,248,286
Bank notes	43,404,850	134,600,000
Certificates of deposit	35,250,000	-
Certificates of deposit floating rate	10,009,300	149,983,141
Commercial paper	103,413,733	-
Money market	39,450,436	179,650,000
U.S. corporate floating rate	233,880,030	303,970,822
Total assets	<u>3,661,876,658</u>	<u>4,992,704,319</u>
Liabilities		
Payables for investment purchases	39,470,631	72,428,311
Claims payable to retirees and beneficiaries	4,149,922	7,482,067
Other liabilities	4,834,866	20,692,958
Amounts due broker under securities lending agreement (Note 3)	<u>561,260,621</u>	<u>917,452,249</u>
Total liabilities	<u>609,716,040</u>	<u>1,018,055,585</u>
Net Assets Held in Trust for Pension Benefits		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 3,052,160,618</u>	<u>\$ 3,974,648,734</u>

Police and Fire Retirement System of the City of Detroit

Statement of Changes in Plan Net Assets Year Ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)

	2009	2008
Additions		
Investment income (loss):		
Interest and dividend income	\$ 125,980,845	\$ 152,745,999
Net depreciation in fair value	(785,524,437)	(440,972,512)
Investment expense	(14,142,820)	(17,430,166)
Securities lending income	5,526,906	5,605,874
Net loss on collateral pool	(45,218,147)	-
Other income	377,866	1,708
Net investment loss	(712,999,787)	(300,049,097)
Contributions:		
Employee	10,902,956	10,299,360
Employer	36,151,057	41,113,934
Total additions - Net	(665,945,774)	(248,635,803)
Deductions		
Retirees' pension and annuity benefits	239,744,214	231,623,462
Member refunds and withdrawals	12,395,300	22,304,141
General and administrative expenses	4,312,555	4,033,993
Depreciation expense	90,273	103,768
Total deductions	256,542,342	258,065,364
Net Decrease in Net Assets Held in Trust for Pension Benefits	(922,488,116)	(506,701,167)
Net Assets Held in Trust for Pension Benefits - Beginning of year	3,974,648,734	4,481,349,901
Net Assets Held in Trust for Pension Benefits - End of year	<u>\$ 3,052,160,618</u>	<u>\$ 3,974,648,734</u>

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2009 and 2008**

Note I - Summary of Significant Accounting Policies

The City of Detroit (the "City") sponsors the contributory single-employer retirement plan for the Police and Fire Retirement System of the City of Detroit (the "System"). The System, which is administered by the System's board of trustees, is composed of a defined benefit component and a defined contribution component. The plans provide retirement, disability, and survivor benefits to plan members and beneficiaries. The Police and Fire Retirement System of the City of Detroit is a separate and independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The trustees of the plan have a fiduciary obligation and legal liability for any violations of fiduciary duties as independent trustees.

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

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

Methods Used to Value Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on periodic appraisals as well as the judgment of independent real estate advisors and management. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management. Approximately 32 percent of the System's assets are not publicly traded and, therefore, do not always have a readily determinable market value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets for the System represent office equipment and furniture. Depreciation expense is calculated by allocating the net cost of the assets over their estimated useful lives.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure.

Note 2 - Plan Description and Contribution Information

At June 30, 2009, the membership of the defined benefit plan and the defined contribution plan consisted of the following:

	Defined Benefit Plan	Defined Contribution Plan
Retirees and beneficiaries receiving pension benefits	8,464	962
Terminated plan members entitled to but not yet receiving benefits	54	116
Active plan members	4,089	3,870

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

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Plan Description and Contribution Information (Continued)

Contributions - The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings. The contribution rate calculated by the actuary for 2008-2009 and 2007-2008 was 26.71 percent and 25.09 percent, respectively, of active annual payroll. Contributions from the employer were \$36,151,057 and \$41,113,934 for the years ended June 30, 2009 and 2008, respectively. However, for the year ended June 30, 2009, the System was actuarially required to pay \$61,151,057, but the System gave the City a credit of \$25,000,000 to reduce the City's contribution. In addition to this contribution amount for year ended June 30, 2009, an additional \$36,791,369 is being funded from the use of pension obligation certificate proceeds received during 2005. The City of Detroit has computed the rate used to calculate the amount of money that is funded by certificate proceeds. The amount is funded by transfers from the Accrued Liability Reserve Fund to the Pension Reserve Fund.

Employees are required to make contributions toward annuity savings in the amount of 5 percent of base compensation until eligibility for retirement is reached. Contributions from employees totaled \$10,902,956 and \$10,299,360 for the years ended June 30, 2009 and 2008, respectively. The contribution requirements of plan members and the City of Detroit are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions.

Annual Pension Costs - The annual contribution for the year ended June 30, 2009 was \$61,151,056. The annual contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.8 percent investment rate of return, (b) projected salary increases of 5 percent per year, (c) additional salary increases of 1 percent to 5.2 percent per year based on merit and/or longevity, and (d) cost-of-living adjustments of 2.25 percent per year. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a three-year period and include an inflation component of 4 percent. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 28 years.

Per the actuarial report dated June 30, 2008, all assumptions have remained consistent except for the investment rate of return and the projected salary increases. The assumed investment rate of return is 7.5 percent and the projected salary increases are 5.0 percent to 9.2 percent.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Plan Description and Contribution Information (Continued)

Funded Status and Funding Progress - As of June 30, 2008, the most recent actuarial valuation date, the plan was 106 percent funded. The actuarial accrued liability for benefits was \$4,071,053,752 and the actuarial value of assets was \$4,316,263,291, resulting in overfunding of \$245,209,539. The covered payroll (annual payroll for active employees covered by the plan) was \$232,812,606.

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

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

	Fiscal Year Ended June 30		
	2007	2008	2009
Annual pension costs	\$ 57,423,366	\$ 58,934,636	\$ 61,151,056
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

See Note 4 for disclosure of required reserves.

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority other than REIT and real estate asset balances under Section 19(1) and 19(2), respectively, being in excess of statutory limits by approximately 1.6 percent and 3.8 percent, respectively.

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2009 and 2008**

Note 3 - Deposits and Investments (Continued)

The System 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 assets.

At June 30, 2009, the System had approximately \$80,000,000 in real estate-related investments that have gone into default and been restructured. These investments are ultimately guaranteed by one organization whose financial condition is uncertain at this time. If these investments were to ultimately fail, it is unknown whether the guarantee would ultimately be realized.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. The System had no bank deposits (certificates of deposit, checking and savings, etc.) at June 30, 2009 and 2008 that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

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

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

At June 30, 2008, the average maturities of investments are as follows:

Investment Type	Fair Value (\$000)	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Pooled and mutual funds**	\$ 171,177	\$ -	\$ -	\$ -	\$ -
Other governmental fixed income	134,398	8,948	82,276	26,036	17,138
Government assets and mortgage backed	124,645	17	587	3,975	120,066
Corporate fixed income	565,528	10,509	256,160	163,770	135,089
Other fixed income	70,716	771	27,786	33,017	9,142
Convertible investments	19,657	-	5,164	1,367	13,126
Mortgages	107,386	4,000	94,659	-	8,727
Construction loans	83,993	67,647	16,346	-	-
Total	<u>\$ 1,277,500</u>	<u>\$ 91,892</u>	<u>\$ 482,978</u>	<u>\$ 228,165</u>	<u>\$ 303,288</u>

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

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk

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

As of June 30, 2009, the credit quality ratings of debt securities (other than the U.S. government) as rated by S&P are as follows:

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

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

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

As of June 30, 2008, the credit quality ratings of debt securities (other than the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value (\$000)	AAA	AA	A	BBB	BB
Pooled and mutual funds	\$ 6,924	\$ -	\$ -	\$ -	\$ -
Government fixed income	119,799	-	-	-	381
Government assets and mortgage backed	11,769	-	-	-	-
Corporate fixed income	34,717	36,185	124,306	108,884	77,550
Other fixed income	437	3,127	8,078	12,639	14,727
Convertible investments	405	1,164	3,415	5,724	2,083
Mortgages	-	-	-	-	-
Construction loans	-	-	-	-	-
Total	<u>\$ 174,051</u>	<u>\$ 40,476</u>	<u>\$ 135,799</u>	<u>\$ 127,247</u>	<u>\$ 94,741</u>

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

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2009 and 2008**

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The System does not restrict the amount of investments in foreign currency.

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

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

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

At June 30, 2008, the following securities are subject to foreign currency risk (in \$000):

	Fixed Income	Equity	Forward Contracts Unrealized Gain (Loss)	Cash
Australian dollar	\$ -	\$ 24,947	\$ 548	\$ 120
Brazilian real	-	661	-	-
British pound sterling	-	103,168	(11,213)	14
Canadian dollar	-	12,110	6,636	52
Danish krone	-	4,899	-	-
Euro currency	-	165,819	(890)	6,428
Hong Kong dollar	-	6,634	-	385
Japanese yen	2,681	65,646	(4,547)	1,038
Mexican nuevo peso	-	281	-	-
New Taiwan dollar	-	1,097	-	308
New Zealand dollar	-	590	-	8
Norwegian krone	-	10,100	(2,197)	13
Singapore dollar	-	3,837	-	167
South Korean won	-	416	-	-
Swedish krona	-	6,248	3,083	1
Swiss franc	-	27,285	1,741	(121)
Total	<u>\$ 2,681</u>	<u>\$ 433,738</u>	<u>\$ (6,839)</u>	<u>\$ 8,413</u>

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

The System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2009 and 2008 was 38 and 26 days, respectively. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2009 and 2008, 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, 2009 was \$561,261,292 and \$540,821,206, respectively.

The following represents the balances relating to the securities lending transactions as of June 30, 2009 on loan:

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

The fair market value of the collateral pool related to securities lending at June 30, 2009 was \$516,042,474. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), money markets, and U.S. corporate securities (floating rate).

Police and Fire Retirement System of the City of Detroit

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Deposits and Investments (Continued)

The following represents the balances relating to the securities lending transactions as of June 30, 2008; investments are reported at fair value:

<u>Securities Lent</u>	<u>Underlying Securities</u>
U.S. government and agencies	\$ 74,151,224
U.S. corporate fixed income	87,335,451
U.S. equities	698,262,242
Non-U.S. equities	<u>25,875,616</u>
Total	<u>\$ 885,624,533</u>

The fair market value of collateral of the securities lending at June 30, 2008 was \$917,452,249. The investments were in asset-backed securities, bank notes, certificate of deposits (floating rate), mutual funds, and U.S. corporate securities (floating rate).

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2009, due to unallocated losses retained in the System's market stabilization fund, the System's reserves have not been fully funded. However, as of June 30, 2008, the System's reserves have been fully funded.

	<u>2009</u>	<u>2008</u>
Reserved for employee contributions	\$ 300,661,737	\$ 267,852,883
Reserved for retired employees	2,836,745,319	2,692,537,271

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

Police and Fire Retirement System of the City of Detroit

**Notes to Financial Statements
June 30, 2009 and 2008**

Note 5 - Pension Obligation Certificates

In June 2005, the City of Detroit issued \$1,440,000,000 of pension obligation certificates to provide funding for the unfunded actuarially accrued liability (UAAL) in both the General Employees' Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit, which existed at June 30, 2003. Any future UAAL that may arise will continue to be paid by the City, as well as the annual normal cost. The proceeds of the pension obligation certificates were deposited into the System and are accounted for in the Accrued Liability Fund (Pension Obligation Certificate) Reserve. Approximately \$740,000,000 was deposited into the General Employees' Retirement System of the City of Detroit and approximately \$630,000,000 was deposited into the Police and Fire Retirement System of the City of Detroit, net of issuance costs and premiums. On an annual basis, funds will be transferred from the Accrued Liability Fund reserve to the pension accumulation reserve based on a computation performed by the City of Detroit. The Accrued Liability Fund was credited with investment earnings commensurate with the overall earnings of the System.

Note 6 - Credit Enhancement Agreements

The System had credit enhancement agreements totaling \$110,000,000 and \$32,570,000 during 2009 and 2008, respectively. In exchange for the credit enhancement, the System receives fees from the companies to whom the enhancement agreements have been given.

Required Supplemental Information

Police and Fire Retirement System of the City of Detroit

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/03	\$ 3,205,516,657	\$ 3,721,593,210	\$ 516,076,553	86.1	\$ 248,681,461	207.5
06/30/04	3,074,516,589	3,857,493,282	782,976,693	79.7	258,699,581	302.7
06/30/05	3,757,894,417	3,780,447,414	22,552,997	99.4	250,491,872	9.0
06/30/06	3,980,254,576	3,808,952,741	(171,301,835)	104.5	228,140,160	-
06/30/07	4,307,183,758	3,896,814,229	(410,369,529)	110.5	230,173,964	-
06/30/08	4,316,263,291	4,071,053,752	(245,209,539)	106	232,812,606	-

Police and Fire Retirement System of the City of Detroit

Required Supplemental Information Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	Transfer from Accrued Liability Reserve *
2004	\$ 69,475,202	\$ 69,475,202	100	\$ -
2005	51,604,596	51,604,596	100	47,237,665
2006	57,807,332	57,807,332	100	29,859,352
2007	57,423,366	57,423,366	100	32,935,982
2008 **	58,934,636	41,113,934	70	34,074,039
2009 **	61,151,057	36,151,057	59	36,791,369

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2008, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2008
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	27 years closed
Asset valuation method	Three-year smoothed market
Actuarial assumptions:	
Investment rate of return ***	7.5%
Projected salary increases ***	5.0% - 9.2%
Includes inflation at	4.0%
Cost-of-living adjustments	2.25%

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

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

*** Per the actuarial report dated June 30, 2008, all assumptions have remained consistent except for the investment rate of return and the projected salary increases. The assumed investment rate of return is 7.5 percent and the projected salary increases are 5.0 percent to 9.2 percent.

Other Supplemental Information

Police and Fire Retirement System of the City of Detroit

Other Supplemental Information Description of Funds

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

Annuity Reserve Fund - Transfers are made from the Annuity Savings Fund into the Annuity Reserve Fund when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions.

Both annuity funds are referred to as defined contribution plans.

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

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

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

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

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

Police and Fire Retirement System of the City of Detroit

	<u>Annuity Reserves</u>		
	<u>Annuity Savings Fund</u>	<u>Annuity Reserve Fund</u>	<u>Market Stabilization Fund</u>
Additions			
Net investment income (loss)	\$ 40,628,728	\$ 1,207,784	\$ (542,435,213)
Contributions:			
Employee	10,661,639	-	-
Employer	-	-	-
Total additions - Net	<u>51,290,367</u>	<u>1,207,784</u>	<u>(542,435,213)</u>
Deductions			
Retirees' pension and annuity benefits	-	705,700	-
General and administrative expenses	-	-	-
Depreciation expense	-	-	-
Member refunds and withdrawals	12,395,300	-	-
Total deductions	<u>12,395,300</u>	<u>705,700</u>	<u>-</u>
Net Additions (Deductions) - Before transfers	38,895,067	502,084	(542,435,213)
Transfers - Net	<u>(6,086,213)</u>	<u>5,973,132</u>	<u>92,747,623</u>
Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	32,808,854	6,475,216	(449,687,590)
Net Assets Held in Trust for Pension Benefits - Beginning of year	<u>267,852,883</u>	<u>16,865,618</u>	<u>(441,541,481)</u>
Net Assets Held in Trust for Pension Benefits - End of year	<u>\$300,661,737</u>	<u>\$23,340,834</u>	<u>\$ (891,229,071)</u>

Other Supplemental Information
Statement of Changes in Plan Net Assets by Fund
Year Ended June 30, 2009
(with comparative totals for the year ended June 30, 2008)

Accrued Liability Reserve Fund	Pension Reserves			Total	
	Survivor Benefits Fund	Pension Accumulation Fund	Pension Reserve Fund	2009	2008
\$ 47,362,327	\$ 701,199	\$ (460,006,058)	\$ 199,541,446	\$ (712,999,787)	\$ (300,049,097)
-	-	241,317	-	10,902,956	10,299,360
-	-	36,151,057	-	36,151,057	41,113,934
47,362,327	701,199	(423,613,684)	199,541,446	(665,945,774)	(248,635,803)
-	4,103,445	-	234,935,069	239,744,214	231,623,462
-	-	4,312,555	-	4,312,555	4,033,993
-	-	90,273	-	90,273	103,768
-	-	-	-	12,395,300	22,304,141
-	4,103,445	4,402,828	234,935,069	256,542,342	258,065,364
47,362,327	(3,402,246)	(428,016,512)	(35,393,623)	(922,488,116)	(506,701,167)
(68,366,253)	-	(197,394,744)	173,126,455	-	-
(21,003,926)	(3,402,246)	(625,411,256)	137,732,832	(922,488,116)	(506,701,167)
695,903,761	12,375,842	747,520,458	2,675,671,653	3,974,648,734	4,481,349,901
<u>\$674,899,835</u>	<u>\$ 8,973,596</u>	<u>\$ 122,109,202</u>	<u>\$ 2,813,404,485</u>	<u>\$ 3,052,160,618</u>	<u>\$ 3,974,648,734</u>