



**City of Ann Arbor  
Employees' Retirement System**

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# ***SUMMARY ANNUAL REPORT***

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**For the Fiscal Year Ended  
June 30, 2016**

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**CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM**

**532 S Maple Rd.**

**Ann Arbor, MI 48103**

**Phone (734) 794-6710 Fax: (734) 994-9205**

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N. Gail Jarskey, Accountant  
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**Actuary**

Buck Consultants

**Auditors**

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The Northern Trust Company  
SKY Harbor Capital Management  
Stone Harbor Investment Partners  
Summit Credit Partners

**INVESTMENT CONSULTANT**

Meketa Investment Group

**LEGAL COUNSEL**

Michael J. VanOverbeke; VanOverbeke, Michaud & Timmony, P.C.

**WEB ADDRESS:** [www.a2gov.org](http://www.a2gov.org)

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**City of Ann Arbor**  
**Employees' Retirement System**  
**Board of Trustees**

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**532 S. Maple Rd. • Ann Arbor, Michigan 48103 (734) 794-6710 • Fax (734) 994-9205**

**CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM**  
**CHAIRPERSON'S LETTER**

Mayor and City Council, Retirement System Members, and Interested Citizens:

We are pleased to submit the City of Ann Arbor Employees' Retirement System's Summary Annual Report for the year ended June 30, 2016.

The Annual Report is presented in four sections: (1) the Introductory Section, which contains the Chairperson's Letter, and provides information of a general nature regarding the Retirement System and a Summary of Benefits; (2) The Investment Section which contains performance and asset allocation information for the System's assets, 3) The Actuarial Section, which contains information regarding the membership, benefit levels, funding and contribution requirements for the system, 4) the Financial Section, which contains the Report of the Independent Accountants, the financial statements of the System and certain required supplementary information. We hope that as you read the Annual Report you will find it useful for evaluation and recognition of the strong financial position of the Retirement System.

**ORGANIZATION**

The City Charter of the City of Ann Arbor, as amended April 1, 1968, provides for the adoption of an ordinance to establish the City of Ann Arbor Employees' Retirement System, to provide for its operation through a Board of Trustees, and for financing the Retirement System through contributions by the membership and special tax to be levied annually on all personal and real property in the City of Ann Arbor. The purpose of the Retirement System is to secure and provide retirement, disability, and survivor benefits for long-term employees of the City of Ann Arbor.

The System is presently **open to all active City employees who meet the definition of "member" in the Ann Arbor City Ordinance.**

**ADMINISTRATION OF SYSTEM**

The general administration, management and responsibility for the proper operation of the Retirement System and for making effective and construing the provisions of the Retirement System Ordinance adopted pursuant to the Charter is vested in the Board of Trustees. The Board consists of nine Trustees:

- (1) Four Trustees are appointed by and serve at the pleasure of City Council;
- (2) The Chief Financial Officer of the City, who serves by virtue of his office;
- (3) One Trustee elected by the general City members from their own number including retirees (general City members being members other than uniform police and fire members);
- (4) One Trustee elected by the police members from their own number including retirees; and
- (5) One Trustee elected by the fire members from their own number including retirees.

## Professional Services

The Board of Trustees for the City of Ann Arbor Employees' Retirement System has a fiduciary responsibility for the management of the Retirement System. The Board retains the services of various professionals to aid in the administration and management.

The **Executive Director** serves as staff to the Board of Trustees and supervises the administration of the Retirement System. In addition to the Executive Director, the Board employs other professional and clerical staff for the administration of the System.

The Board of Trustees appoints its **Legal Counsel**.

The Board appoints an **Actuary** who prepares an annual actuarial valuation to determine the adequacy of the funding of retirement benefits and liabilities accrued by Retirement System members.

An **Investment Management Consultant** is retained to measure the results of the investment managers and to assist in other investment related services when deemed necessary.

**Investment Managers** are hired by the Board to invest the System's assets consistent with the objectives and direction of the Board of Trustees and as specified in the Statement of Investment Policy.

An independent **Auditor** is engaged by the Board on an annual basis to perform an audit of the Retirement System's records to insure that the financial statements accurately reflect the financial position of the Retirement System and conform to generally accepted accounting principles.

A **Medical Director** is appointed by the Board to review and evaluate medical evidence regarding applications for duty and non-duty disability retirements.

A **Custodial Bank** is retained by the Board for the safeguarding and maintenance of Retirement System assets, and the accounting and reporting of assets and benefit payments.

## ACCOUNTING SYSTEM AND REPORTS

The accounting records of the City of Ann Arbor Employees' Retirement System are maintained on an accrual basis and all Retirement System costs and expenses are borne by the Retirement System. Both a sample of benefit payment calculations and the financial statements are audited annually by the external auditor.

## FUNDING AND SYSTEM OPERATION

The Retirement System's funding objective is to meet the City's long-term benefit commitment to retirees through contributions that remain approximately level as a percentage of member payrolls. On a long-term investment basis, the Retirement System is funded at 85.7% as of June 30, 2016, a decrease from the prior year's 86.2% funded level. The long-term basis uses a "smoothed asset value" when calculating the funded status of the Plan.

To fund the retirement allowances promised by the City of Ann Arbor, group contribution rates are determined on the basis of the annual actuarial valuation which indicates the required plan sponsor contributions, in addition to the members' contributions and assumed investment income. Funding is provided by these three sources as follows:

**Contributions by Members:** Members contributed \$3,139,266, including purchased service payments, to the Retirement System for the fiscal year ended June 30, 2016. The member contributions are calculated on all pensionable compensation, including overtime. General Non Union members, General AFSCME, Police Professional and TEAMSTER members, Fire Members, Police Department Chiefs, Police AAPOA, COAM and AAPOA for Police Specialists all contribute 6% of their annual compensation. Deposits are posted to an individual account for each member.

The accumulated amount in each account is used for the member's benefit if the member remains in service until retirement. If a member leaves service, the member may withdraw all or a portion of the amount of accumulated contributions together with interest credited to the member's individual account. With five or more years of service (*10 years for general non-union post 7/1/2011, 10 years depending on date of hire for bargaining units as reflected in their individual contracts*), a member may elect a deferred retirement commencing at age 60. If an active member dies prior to retirement and no monthly survivor benefits are payable under the Retirement System's provisions, the member's named beneficiary or legal representative will receive a refund of the member's contributions.

**Contributions by the City:** For the fiscal year ended June 30, 2016, the City's contribution was \$13,352,412, which covers the annual cost of providing benefits to the Members as well as a payment toward the underfunding in the Plan. The 2016 contribution exceeded the actuarially required amount. The City is expected to contribute \$11,348,353 for fiscal year 2016/2017, and \$11,757,292 for fiscal year 2017/2018. The City will contribute the greater of the actuarial requirement or the past year's contribution plus an inflation factor based on tax revenues.

**Investment Income:** Investment income is the third source of Retirement System revenues. For fiscal year ended June 30, 2016, the Retirement System's financial experience was positive, but lagged the target return, as Plan Net Assets Available for Benefits decreased to \$456.6 million as of June 30, 2016 from \$472.3 million the prior year. Investment performance on a fair value basis was a positive .37%. The System had net investment income of \$2,439,318. Investment income is a vital and major contributor to the City of Ann Arbor Employees' Retirement System.

### **RETIREMENT BOARD**

In Fall 2016, the Mayor reappointed Citizen Trustees Julie Lynch and Brock Hastie to the Retirement Board for the term 1-1-2017 through 12-31-2019.

### **INVESTMENT PERFORMANCE**

The State of Michigan charges the Board of Trustees under the Public Employee Retirement System Investment Act with the responsibility of investing the Retirement System's portfolio in a prudent manner. Specifically, the Public Employee Retirement System Investment Act requires the Board of Trustees and the other investment fiduciaries to discharge their duties solely in the interest of participants and beneficiaries and to act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims. The law also requires the Board of Trustees to prepare and maintain written objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the System's investments as well as monitor the investment of the System's assets with regard to the limitations of the law. The Act permits assets to be invested in a mix of fixed income, securities, real estate or other instruments, and allows discretion regarding the investing of up to 70% of assets in global equity, up to 20% in equity real estate investment, up to 20% in foreign investment, and up to 20% in other forms of investment not otherwise qualified under the Act.

Extending the significant restructuring of the System’s portfolio begun in 2011, trustees and consultants continue initiatives to:

- Manage investment costs by moving to indexed strategies for certain asset classes for which markets tend to be more efficient
- Reduce risk by expanding asset allocation to a wider selection of asset types with more global participation
- Participate in investment vehicles that offer inflation protection and that may be less correlated to equity returns
- Restructure the hedge fund program to reduce overlap and add more focused strategies

Assets will continue to be reallocated as appropriate investment opportunities are identified.

The Retirement System’s portfolio distribution is continually monitored to ensure that it is in compliance with the State of Michigan Public Employee Retirement System Investment Act.

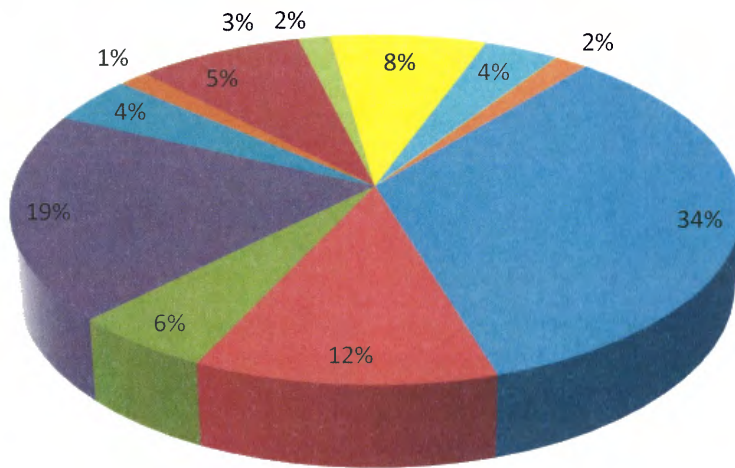
**CITY OF ANN ARBOR EMPLOYEES’ RETIREMENT SYSTEM**  
**MARKET VALUE AND ASSET CLASS SUMMARY AS OF JUNE 30, 2016**

<b>Asset Class</b>	<b>Market Value (\$ Millions)</b>	<b>% of Fund</b>
Domestic Equity	\$157	34.2%
International Developed Market Equity	54.2	11.8
International Emerging Market Equity	25.3	5.5
Investment Grade Fixed Income	88.7	19.3
Treasury Inflation Protected Securities	20.0	4.4
High Yield Fixed Income	24.2	5.3
Emerging Market Debt	6.9	1.5
Real Estate	36.1	7.9
Bank Loans	14.5	3.2
Hedge Fund Assets	17.5	3.8
Private Equity	7.4	1.6
Cash	7.8	1.7
<b>Total</b>	<b>\$459.6</b>	<b>100%</b>

Note: source is Meketa Investment Group. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements.

## City of Ann Arbor Employees Retirement System

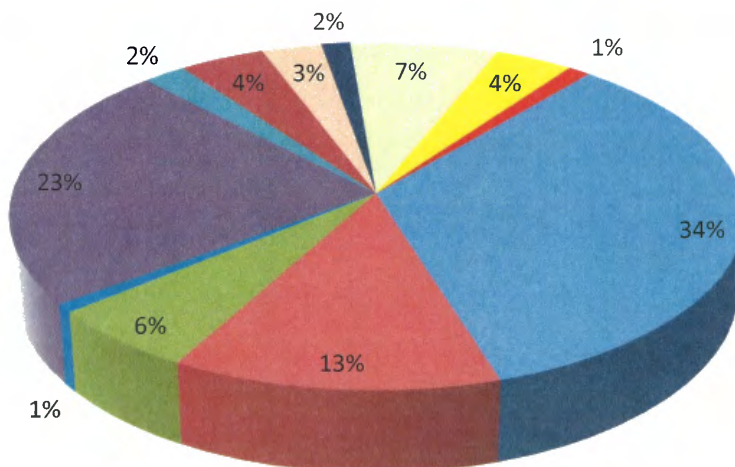
### 2016 Allocation of Assets



- Domestic Equity
- International Developed Market Equity
- International Emerging Market Equity
- Investment Grade Fixed Income
- Treasury Inflation Protected Securities
- Emerging Market Debt
- High Yield Fixed Income
- Bank Loans
- Private Equity
- Real Estate
- Hedge Fund

## City of Ann Arbor Employees Retirement System

### 2015 Allocation of Assets



- Domestic Equity
- International Developed Market Equity
- International Emerging Market Equity
- Private Equity
- Investment Grade Fixed Income
- Treasury Inflation Protected Securities
- High Yield Fixed Income
- Bank Loans
- Emerging Market Debt
- Real Estate
- Hedge Fund
- Cash



**Historical Asset Class Performance (%)**  
**By Calendar Year, Most Recent 12/31/2015**

Asset Class	1 Year	3 Years	5 Years	7 Years	10 Years
Total Retirement Plan	0.1	7.0	6.6	9.4	5.4*
Domestic Equity	0.2	14.3	11.9	16.0	7.6
International Developed Market Equity	-0.6	3.8	2.7	8.9	4.4
International Emerging Market Equity	-15.1	-6.9	NA	NA	NA
Investment Grade Fixed Income	0.8	1.8	3.5	5.2	5.2
High Yield Fixed Income	-3.3	2.3	4.6	NA	NA
Treasury Inflation Protected Securities	-0.4	NA	NA	NA	NA
Bank Loans	2.7	4.2	NA	NA	NA
Emerging Market Debt	-15.2	-12.1	NA	NA	NA
Alternative	-5.1	2.3	1.3	NA	NA
Real Estate	19.0	17.4	15.3	6.4	5.8

\*10 Year Total Plan Is Gross of Fees; 8.3% Return since October 1990.  
Performance Updates Are Available Quarterly on the System's Website.

**Expenditures of the System**

The cost of all benefits, services, and operations, totaling \$ 35,413,638 in 2016, is borne by the Retirement System. The benefit payment amounts reflect actual annual outlays for the given year.

Expenditures of System	2016	2015
Benefit Payments	\$32,996,135	\$32,146,995
Refund of Contributions	\$963,896	\$520,517
Investment Expenses	\$729,066	\$935,719
Administrative Expenses	\$724,540	\$683,980
Total	\$35,413,638	\$34,287,211

## Travel Expenditures

	Budget FY15/16	Actual FY 15/16	Budget FY 16/17
Conference & Training	\$45,000	\$6,138	\$45,000
Due Diligence	\$15,000	\$0	\$15,000

## Actuarial Valuation

Buck Consultants conducts the actuarial valuations and as requested, experience studies and other analyses for the Board. A copy of the Actuarial Valuation Report is available in the Retirement System office at 532 S. Maple Rd., Ann Arbor, MI 48103, and on the Retirement System's website. Experience studies are conducted every five years by Board policy, with the most recent study conducted in 2013. All recommendations resulting from the Buck experience study were accepted by the Board with the exception of the salary recommendation. Buck had noted a downward trend in the salary scales in certain groups over the last several years. With input from the City's financial staff, it was determined that such a reduction reflected the recent constrained economic environment and would not be representative of salary policy for employees in the upcoming years. Therefore the salary assumption continued at the previous assumption levels.

## Highlights of the Valuation

	2016	2015	% Change
Total Annual Benefit Payments Trend	\$33,495,094	\$32,249,189	+3.9
Average Annual Benefit Payment	\$32,935	\$32,379	+1.7
Average Accumulated Contributions	\$ 79,315	\$79,225	+
Total Annual Valuation Salary	\$50,057,471	\$48,759,189	+2.7

The Actuarial Report indicates that as of June 30, 2016, the Retirement System was funded at a ratio of 85.7%. The City's Annual Required Contribution for the fiscal year 2016/2017 will be \$11,348,853, and is projected to be \$11,757,292 for the fiscal year ending June 2018. The City's total contribution rate as a percentage of its payroll is 21.73% for the fiscal year beginning July 1, 2016.

In 2013 City Council approved a policy that provides that the amount contributed by the City for pension funding in any year will be targeted to be the greater of the Annual Required Contribution or the prior year's contribution with an escalator based on increased tax revenue. The policy has contributed to the improvement in funding this year.

## Actuarial Contributions

Fiscal Year Ending Development of Employer Contributions	June 30, 2018	June 30, 2017
Annual Payroll*	\$53,621,563	\$52,230,843
Total Accrued Liability	\$548,201,472	\$533,198,267
Actuarial Value of Assets	\$470,028,788	\$459,480,142
Unfunded Actuarial Accrued Liability	\$78,172,684	\$73,718,125
Funded Ratio	85.74%	86.17%
UAAL as Percent of Annual Payroll	145.79%	141.14%
Amortization Payment for UAAL**		
a. Amount	\$4,846,209	\$4,570,055
b. As a % of Pay	9.04%	8.75%
Employer Normal Cost		
a. Amount	\$6,911,083	\$6,778,798
b. As a % of Pay	12.89%	12.98%
Actuarial Employer Contributions		
a. Amount	\$11,757,292	\$11,348,853
b. As a % of Pay	21.93%	21.73%
Funding Period	25	25

\* Includes a payroll projection factor of 1.0712 to project each active member to the applicable fiscal year

\*\* At the October 15, 2009 Board meeting, the Board adopted a 30 year amortization period for the fiscal year June 30, 2011 contribution, declining every year until June 2015 when a 25 year amortization period is used.

## Schedule of Funding Progress

(\$ 000's)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	\$428,689	\$430,438	\$1,749	99.59%	\$51,287	3.41%
June 30, 2009	\$426,283	\$455,219	\$28,936	93.64%	\$50,120	57.73%
June 30, 2010	\$421,387	\$466,883	\$45,496	90.26%	\$48,688	93.44%
June 30, 2011	\$423,734	\$481,330	\$57,596	88.03%	\$45,921	125.42%
June 30, 2012	\$410,709	\$496,770	\$86,061	82.68%	\$44,004	195.58%
June 30, 2013	\$407,170	\$507,436	\$100,266	80.24%	\$45,063	222.50%
June 30, 2014	\$433,854	\$523,461	\$89,607	82.88%	\$47,957	186.85%
June 30, 2015	\$459,480	\$533,198	\$73,718	86.17%	\$48,759	151.19%
June 30, 2016	\$470,029	\$548,201	\$78,172	85.74%	\$50,057	156.17%

## Solvency Test

Valuation Date	Aggregate Accrued Liability for :		3 Active Members (Employer Financed)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	1 Active Members' Contributions	2 (\$000's) Inactive Members			1	2	3
June 30, 2008	\$2,726			\$428,689			
June 30, 2009	\$2,815	\$276,709	\$175,695	\$426,283	100%	100%	83.53%
June 30, 2010	\$3,148	\$306,296	\$157,439	\$421,387	100%	100%	71.10%
June 30, 2011	\$2,790	\$327,964	\$150,576	\$423,734	100%	100%	61.75%
June 30, 2012	\$2,797	\$348,249	\$145,724	\$410,709	100%	100%	40.94%
June 30, 2013	\$2,858	\$353,683	\$150,895	\$407,170	100%	100%	33.55%
June 30, 2014	\$2,948	\$356,397	\$164,116	\$433,854	100%	100%	45.40%
June 30, 2015	\$3,013	\$361,314	\$168,871	\$459,480	100%	100%	56.35%
June 30, 2016	\$3,139	\$374,798	\$170,264	\$470,029	100%	100%	54.09%

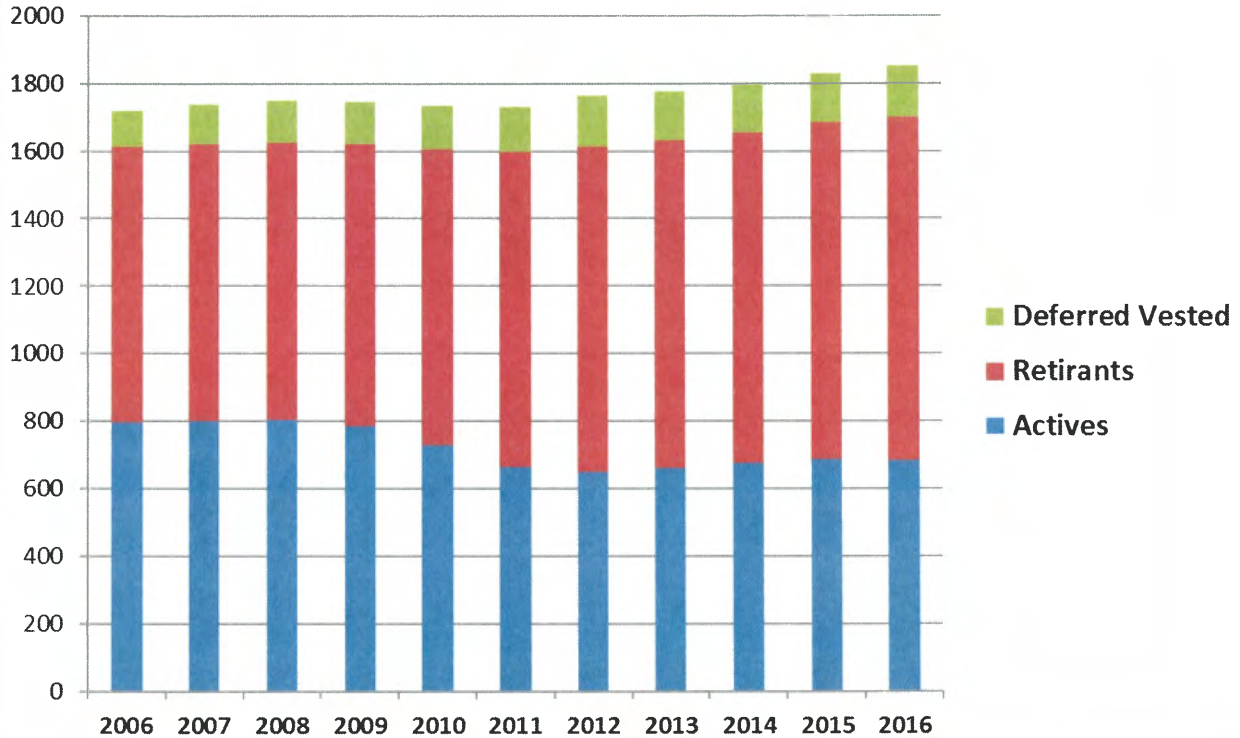
## Schedule of Employer Contributions (\$'s 000's)

The GASB Statement No. 25 and 67 required contributions and actual percentages contributed over the last ten years are as follows:

Fiscal Year Ended June 30	Valuation Date June 30	Annual Required Contribution \$ Thousands	Percentage Contributed
2007	2005	5,039	100%
2008	2006	7,517	100%
2009	2007	6,895	100%
2010	2008	7,560	214%
2011	2009	8,658 <sup>^</sup>	166%
2012	2010	9,440	142%
2013	2011	9,749	135%
2014	2012	11,217	100%
2015	2013	12,327	106%
2016	2014	12,233	109%
2017	2015	11,348	
2018	2016	11,757	

<sup>^</sup> Revised based on the June 15, 2010 Supplemental Valuation.

## Member Data by Status



### Assumptions, Methods, and Additional Information

Valuation Date:	6/30/2016
Actuarial Cost Method	Entry Age
Amortization Method:	Level percent of payroll, closed
Remaining amortization period	25 *
Asset valuation method	5-year adjusted market value
 Actuarial assumptions:	
- Investment Rate of Return	7%
- Projected Salary Increases	3.50%
- Payroll Increases	0.3%-6.0%
- Inflation Assumption	3.50%
- Cost of Living Adjustments	Adjustments are funded by financial gains, and are not guaranteed
Health Care Inflation	N/A

## Accounting Information for GASB 67

The components of the net pension liability of the City at June 30, 2016 and the prior fiscal year are as follows:

	June 30, 2016	June 30, 2015
Total Pension Liability	\$ 544,714,000	\$ 537,025,000
Plan Fiduciary Net Position	456,620,000	472,374,000
City's net pension liability	88,094,000	64,651,000
Plan Fiduciary net position as a percentage of the total pension liability	83.83%	87.96%
Covered Employee Payroll	50,057,000	48,759,000
Net Pension Liability as a percentage of covered employee payroll	175.99%	132.59%

Please note this net position and the associated funded level is more closely aligned to the current market value of assets and does not employ a smoothing of past market values.

### Sensitivity of the Net Pension Liability to Changes In Discount Rates

Decrease to 6%	Current 7%	Increase to 8%
\$147,678,000	\$88,094,000	\$37,776,000

### Description of Plan and Benefits

The City of Ann Arbor Employees' Retirement System is a contributory defined benefit plan which provides for pension and disability benefits for substantially all City of Ann Arbor employees. The Retirement System is composed of "General" and "Police and Fire" members. A number of members within the two groups have the ability to negotiate retirement benefits with the City. Those members not covered by collective bargaining agreements have retirement benefits established through Personnel Rules and Regulations. The System requires both employee and employer contributions, which in conjunction with investment returns, will provide assets sufficient to meet the benefits to be paid to members. The System is open to new hires, although retirement provisions may change according to bargaining unit and date of hire.

The following is a summary of the benefits of the City of Ann Arbor Employees' Retirement System. Complete details of the benefits and other aspects of the program may be found in Chapter 18 of the City Code and in the Rules and Regulations of the Retirement Board.

### **Benefit Provisions**

The benefit formula provides a monthly benefit – the retirement allowance - for a participant's lifetime or for a participant and beneficiary's lifetimes with several actuarially adjusted benefit options. The retirement allowance is composed of 1) an "annuity", which is the lifetime actuarial value of a member's contributions plus imputed interest accrued over the working lifetime of the member, and 2) a "pension", which is the amount added by the City to complete the funding required to equal the total retirement allowance.

A member's contributions may be withdrawn in increments of 25%, up to a total withdrawal. Such withdrawals reduce or eliminate the annuity portion of the retirement allowance. All members currently contribute 6% of their pensionable compensation throughout their employment.

Final Average Compensation (FAC) is a term used when describing City of Ann Arbor Employees' Retirement System Benefits. It means the average of the highest three, or five consecutive years of compensation out of the last ten years, depending on date of hire. Some lump sum payments are included in a member's FAC.

#### **Regular Retirement (no reduction factor for age):**

##### **Eligibility -**

General: Age 50 with 25 years of service, or age 60 with 5 or 10 years of service depending on date of hire. Mandatory Retirement Age - None.

Police-Fire: 25 years of service, or age 55 with 5 or 10 years of service depending on date of hire. Mandatory Retirement Age - None.

##### **Annual Amount -**

General: Total service times 2.5% of final average compensation.

Police-Fire: Total service times 2.75% of final average compensation.

#### **Early Retirement (age reduction factor used):**

##### **Eligibility -**

General: Age 50 with 20 years of service.

Police-Fire: Age 50 with 20 years of service.

##### **Annual Amount -**

Computed as regular retirement but the pension portion of the allowance is reduced by .33% for each month by which retirement precedes:

General: Earlier of a) age 60, or b) the age the member would have earned had 25 years of credited service.

Police-Fire: Earlier of a) age 55 or b) the age the member would have earned 25 years of Credited service.

The annuity portion of the retirement allowance is unreduced, when applying the early reduction factor, since it has already been actuarially adjusted.

### **MEMBER INTEREST CREDITS**

Member interest credits on member contributions are calculated annually, depending on a rolling period of investment returns. Effective January 1, 2016, member's individual accounts will be credited with interest at 1.52 % per quarter for an annual return of 6.2 %.

#### **Deferred Retirement (vested benefit):**

**Eligibility** - 5 or 10 years of service depending on date of hire, payable at age 60.

**Annual Amount** - Same as regular retirement but based upon service and final average compensation at termination. (A member may elect to receive all or a portion of his accumulated contributions at termination, if the member's age plus service total at least 50, and receive a lesser benefit at age 60).

#### **Duty Disability Retirement:**

**Eligibility** - No age or service requirement.

**Annual Amount** –

General: Computed as regular retirement. Minimum to age 60 is 18% of final average compensation. Minimum after age 60 is sum of a) 12% of the portion of final average compensation not in excess of Social Security base, plus b) 18% of final average compensation in excess of Social Security base. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

Police-Fire: Computed as regular retirement. Minimum benefit is 25% of final average compensation. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

#### **Non-Duty Disability Retirement:**

**Eligibility** - 5 or 10 years of service depending on date of hire.

**Annual Amount** –

General: Computed as regular retirement. Minimum to age 60 is 18% of final average compensation. Minimum after age 60 is sum of a) 12% of the portion of final average compensation not in excess of Social Security base, plus b) 18% of final average compensation in excess of Social Security base.

Police-Fire: Computed as regular retirement. Minimum benefit is 25% of final average compensation.



**Duty Death before Retirement:**

**Eligibility** - No age and service requirement.

**Annual Amount** - Computed as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If the member had less than 25 years of service at time of death, a minimum of 25 years of service will be used to compute the benefits. Worker's compensation payments made to the member's beneficiary will offset the benefits paid by the Retirement System. Upon termination of worker's compensation payments the amount paid to the beneficiary will be the greatest of the annual worker's compensation payment and the computed 100% joint and survivor retirement benefit.

**Non-Duty Death before Retirement:**

**Eligibility** - 5 or 10 years of service depending on date of hire.

**Annual Amount** - Computed as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If there is no named beneficiary, a lump sum will be payable to the estate.

**Post-Retirement Adjustments:**

Adjustments may be made every July 1 to retirants and beneficiaries who have been receiving a benefit for at least 12 months. Adjustments are funded by financial gains, and are not guaranteed. Participants whose benefit falls below a minimum benefit amount as adjusted by inflation, may receive an increase in benefit, prorated by credited service at retirement.

**Member Contributions:**

General Non-Union:	6% beginning 7/1/2010
General Police Professional & Teamster Civilian:	6% beginning 8/1/2010
General AFSCME and CSS:	6% beginning 11/20/2011
Fire:	6%, beginning 2/1/2010
Police Department Chiefs:	6% beginning 8/1/2010
Police AAPOA:	6% beginning 1/1/2012
AAPOA for Police Service Specialists:	6% beginning 8/14/2011
Police COAM:	6% beginning 5/6/2012

# **FINANCIAL SECTION**

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**The purpose of the Financial Section is to provide the reader with the present financial position and condition of the System.**

**This section contains:**

**Independent Auditors' Report  
&  
Audited Financial Statements**



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## INDEPENDENT AUDITORS' REPORT

November 4, 2016

To the Members of the Audit Committee of the  
City of Ann Arbor Employees' Retirement System  
Ann Arbor, Michigan

We have audited the accompanying statements of fiduciary net position of the *City of Ann Arbor Employees' Retirement System* (the "System") as of June 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### *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.

### *Independent Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net position restricted for pensions at June 30, 2016 and 2015, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Reporting Entity*

As discussed in Note 1, the financial statements present only the City of Ann Arbor Employees' Retirement System pension trust fund and do not purport to, and do not, present fairly the financial position of the City of Ann Arbor as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules of pension information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Rehman Lobson LLC*

**CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM**

**Statements of Fiduciary Net Position**

June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Investments, at fair value:		
Equities	\$ 242,726,673	\$ 252,990,505
Fixed income	156,764,195	163,724,181
Other	<u>60,047,469</u>	<u>57,287,249</u>
Total investments	459,538,337	474,001,935
Equity in City of Ann Arbor pooled cash and investments	37,470	1,011,379
Accrued interest and dividends	497,321	466,519
Due from broker for securities sold	104,984	1,186,824
Capital assets, net	<u>373,957</u>	<u>385,523</u>
<b>Total assets</b>	<u>460,552,069</u>	<u>477,052,180</u>
<b>Deferred outflows of resources</b>		
Deferred pension amounts	<u>416,214</u>	<u>72,964</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	3,048,647	2,893,246
Due to broker for securities purchased	414,955	1,325,151
Mortgage payable, due in one year	27,369	26,190
Mortgage payable, due in more than one year	192,104	219,473
Net pension liability	<u>645,821</u>	<u>287,187</u>
<b>Total liabilities</b>	<u>4,328,896</u>	<u>4,751,247</u>
<b>Deferred inflows of resources</b>		
Deferred pension amounts	<u>19,066</u>	<u>-</u>
<b>Net position restricted for pensions</b>	<u>\$ 456,620,321</u>	<u>\$ 472,373,897</u>

**CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM**

**Statements of Changes in Fiduciary Net Position**  
For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>Additions</b>		
Investment income:		
<i>From investing activities:</i>		
Net appreciation in fair value of investments	\$ 222,470	\$ 17,016,321
Interest and dividends	2,920,866	4,035,448
Total investment income	3,143,336	21,051,769
Investment management fees	(729,066)	(935,719)
Net investment income from investing activities	<u>2,414,270</u>	<u>20,116,050</u>
<i>From securities lending activities:</i>		
Gross earnings	47,061	40,621
Borrower rebates received (paid)	(11,345)	(402)
Securities lending fees	(10,668)	(12,018)
Net investment income from securities lending activities	<u>25,048</u>	<u>28,201</u>
Total net investment income	<u>2,439,318</u>	<u>20,144,251</u>
Contributions:		
Employer	13,352,412	13,091,474
Plan members	3,139,266	3,013,353
Total contributions	<u>16,491,678</u>	<u>16,104,827</u>
<b>Total additions</b>	<u>18,930,996</u>	<u>36,249,078</u>
<b>Deductions</b>		
Benefits	32,996,136	32,146,995
Refunds	963,896	520,517
Administrative expenses	724,540	683,980
<b>Total deductions</b>	<u>34,684,572</u>	<u>33,351,492</u>
<b>Change in net position</b>	<u>(15,753,576)</u>	<u>2,897,586</u>
Net position, beginning of year, before restatement	472,373,897	469,685,311
Restatement for net pension liability	-	(209,000)
Net position, beginning of year, as restated	<u>472,373,897</u>	<u>469,476,311</u>
<b>Net position, end of year</b>	<u>\$ 456,620,321</u>	<u>\$ 472,373,897</u>

## City of Ann Arbor Projected Budget

	<b>Budget FY16/17</b>
Salary and Fringes	\$489,254
Insurance Premiums	\$14,143
Actuary	\$26,000
Actuary-Additional projects	\$10,000
Attorney	\$50,000
Fiduciary Insurance	\$28,000
Auditor	\$8,600
Professional Services	\$5,000
Building Maintenance	\$17,500
Printing	\$1,700
Conf & Training	\$45,000
Due Diligence	\$15,000
Government Functions	\$6,000
Contingency/Miscellaneous	\$11,450
Postage	\$1,600
Supplies	\$1,500
Equipment <5000	\$2,000
Dues/Subscriptions	\$3,000
IT Charges	\$24,417
Software - Actuarial	\$10,000
Software Maintenance	\$30,000
Interest on Mortgage	\$9,465
Principal on Mortgage	\$27,369
Total Administrative Costs	<u>\$836,998</u>
Total Investment Services	<u>\$1,874,000</u>
Benefit/Refund Payments	\$1,500,000
Benefit Payments	<u>\$34,000,000</u>
Total Benefit/Refund Payments	\$35,500,000
Total Budget	<u><u>\$38,210,998</u></u>

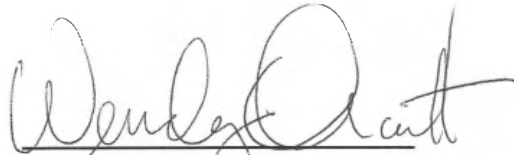
City of Ann Arbor  
Employees' Retirement System

**ACKNOWLEDGMENTS**

We thank Daniel Gustafson, Corbin Hammond, Gail Jarskey, and Lora Kluczynski of the Retirement System staff for their assistance in preparing this report for City Council, members of the Retirement System, and the public.



**Jeremy Flack, Chairperson**  
City of Ann Arbor  
Employees' Retirement System



**Wendy Orcutt, Executive Director** *(Effective 12/28/2016)*  
City of Ann Arbor  
Employees' Retirement System