



Annual Report

*For the Year Ending
June 30, 2009*

CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM

**532 S. Maple Rd.
Ann Arbor, MI 48103**

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BOARD OF TRUSTEES

Nancy Sylvester, Chairperson, General Member Trustee
*Chris Heatley, Vice-Chairperson, Police Member Trustee
*Jeffrey Kahan, Secretary, General Member Trustee
Tom Crawford, Chief Financial Officer
Jeremy Flack, Fire Member Trustee
Roger Fraser, City Administrator
David Hescheles, Citizen Trustee
Atleen Kaur, Citizen Trustee
Alexa Nerdrum, Citizen Trustee

RETIREMENT SYSTEM STAFF

Willie J. Powell, Executive Director
Judith Refalo, Pension Analyst
N. Gail Jarskey, Accountant
Lora Kluczynski, Management Assistant

ACTUARY

Gabriel, Roeder, Smith & Company

AUDITORS

Abraham & Gaffney, P.C.

CUSTODIAL BANK

The Northern Trust Company

INVESTMENT ADVISORS

Blackrock Multi-Manager Partners
Bradford & Marzec, Inc.
Fisher Investments
Intercontinental Real Estate Corporation
Invesco, Inc.
Lee Munder Capital Group, LLC
Loomis, Sayles and Company
MacKay Shields, LLC

Northern Trust Quantitative Advisors
Penn Capital Management Company, Inc.
Principal Global Investors
Rhumblin Advisors
Schwartz Investment Counsel, Inc.
State Street Global Advisors
Thornburg Investment Management

INVESTMENT PERFORMANCE MEASUREMENT CONSULTANT

Gray & Company Investment Management Consultants

LEGAL COUNSEL

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

WEB ADDRESS

www.a2gov.org

**Chris Heatley (retired) has been replaced by Police Trustee David Monroe, and Jeffrey Kahan resigned from the Board and was replaced by General Trustee Terry Clark. Both were elected by members in December 2009.*

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SUMMARY FACT SHEET

| Sources of Funds | June 30, 2009 | June 30, 2008 | 1-Year Investment Return |
|---|---------------------|---------------------|--------------------------|
| Investment Income (Loss) <i>(Net of Fees)</i> | (80,537,000) | (24,757,000) | (18.98)* |
| City Contributions | 14,726,000 | 7,517,000 | |
| Member Contributions | <u>2,815,000</u> | <u>2,726,000</u> | |
| | (62,996,000) | (14,514,000) | |

| Key Figures (Actual—Last 2 Years) | City Contributions | Benefits Paid | Funded Ratio |
|--------------------------------------|--------------------|-------------------|--------------|
| <i>Year Ended</i> | | | |
| June 30, 2009 | 14,726,000 | 24,984,000 | 93.6% |
| June 30, 2008 | <u>7,517,000</u> | <u>23,976,000</u> | <u>99.6%</u> |
| Increase (Decrease) | 7,209,000 | 1,008,000 | |

| Key Figures (Projected—Next 2 Years) | Projected City Contributions | Projected Benefits Payable |
|---|------------------------------|----------------------------|
| <i>Year Ended</i> | | |
| June 30, 2011 | 9,005,858 | 27,187,000 |
| June 30, 2010 | <u>7,559,781</u> | <u>26,210,000</u> |
| Increase (Decrease) | 1,446,077 | 977,000 |

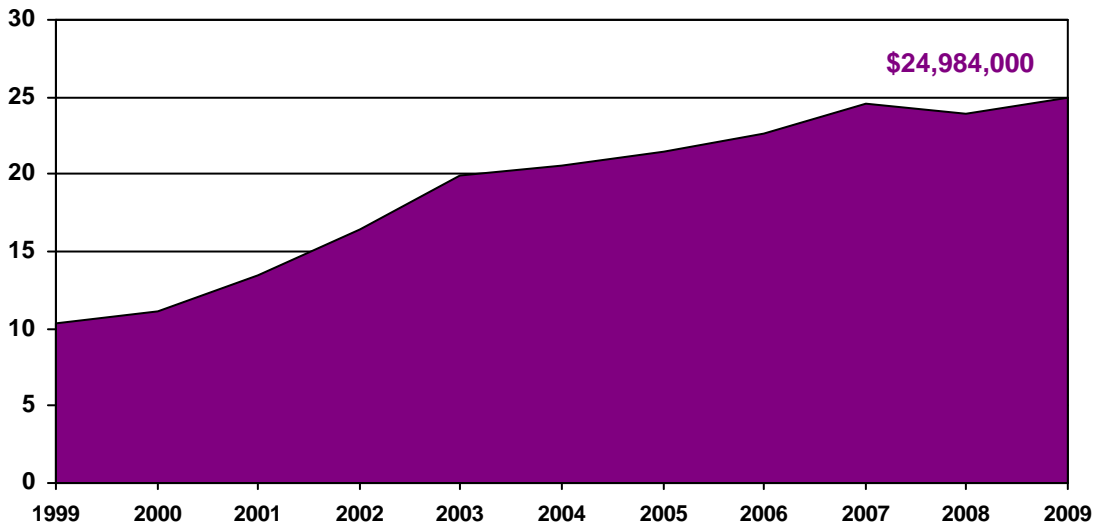
| Demographics | June 30, 2009 | June 30, 2008 | Increase (Decrease) |
|--------------------------------------|---------------|---------------|---------------------|
| <u>Active Membership</u> | | | |
| General Members | 547 | 564 | (17) |
| Police Members | 148 | 149 | (1) |
| Fire Members | <u>91</u> | <u>92</u> | <u>(1)</u> |
| | 786 | 805 | 19 |
| <u>Retirees/Beneficiaries</u> | | | |
| General Members | 539 | 525 | 14 |
| Police Members | 150 | 149 | 1 |
| Fire Members | <u>145</u> | <u>146</u> | <u>-1</u> |
| | 834 | 820 | 14 |
| <u>Types of Retirement</u> | | | |
| Age & Service | 781 | 767 | 14 |
| Casualty | <u>53</u> | <u>53</u> | <u>0</u> |
| | 834 | 820 | 14 |

*City of Ann Arbor Employees' Retirement System Performance Report, Period Ending June 30, 2009
Net of fees

Longest Paid Benefits

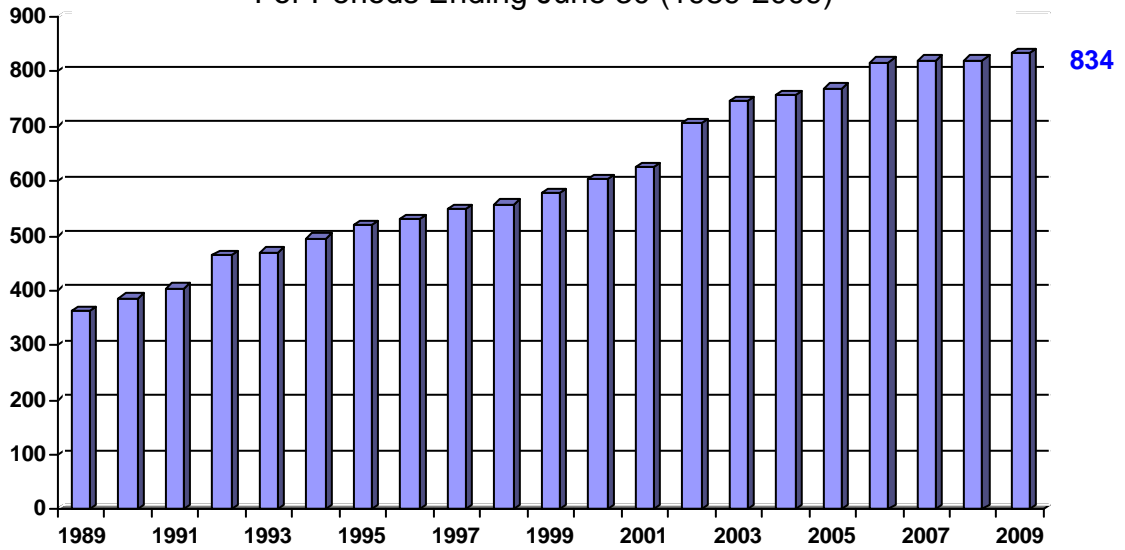
- Irene O'Brien, widow of Francis O'Brien, who retired on 12/10/1967 as a Municipal Judge with 18 years of service.
- Donald Robbins, who retired on 9/27/1968 from the Fire Department with over 26 years of service.
- Chester Carter, who retired on 9/2/1972 from the Police Department with over 25 years of service.

ANNUAL BENEFITS PAID 1999-2009



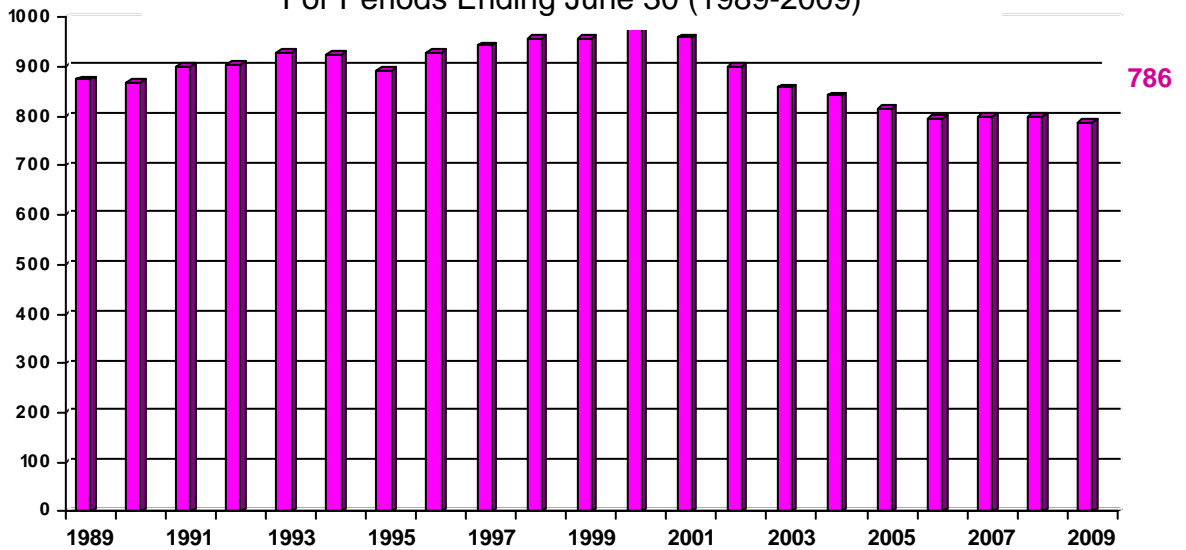
RETIREES / BENEFICIARIES

For Periods Ending June 30 (1989-2009)



ACTIVE MEMBERS

For Periods Ending June 30 (1989-2009)



INTRODUCTION



The purpose of the Introductory Section is to familiarize the reader with the contents of this report. Included herein are explanations of the System:

Organization

Administration of System

Professional Services Utilized

How the Fund Operates

Highlights

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

Mayor and City Council, Retirement System Members, and Interested Citizens
Ann Arbor, Michigan

We are pleased to submit the City of Ann Arbor Employees' Retirement System's Annual Report for the year ended June 30, 2009.

The Annual Report is presented in two 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 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.

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 as follows:

- (1) City Administrator and the City Finance Director serve by virtue of their respective offices;
- (2) Three Trustees are appointed by the Council and serve at the pleasure of the Council;
- (3) Two Trustees are elected by the general city members from their own number (general city members being members other than uniform police and fire members);
- (4) One Trustee elected by the police members from their own number; and
- (5) One Trustee elected by the fire members from their own number.

The Organization Chart on page 6 lists the System's Administrative Staff and outside firms which assist the Board of Trustees in carrying out its fiduciary responsibilities. The Organization Chart also illustrates these responsibilities.

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, and as such, the Board obtains the services of various professionals to aid in the administration and management. These professionals are:

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.

A **Performance Measurement 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 the financial statements accurately reflect the financial position of the Retirement System and that the results of its yearly operations conform to generally accepted accounting principles.

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

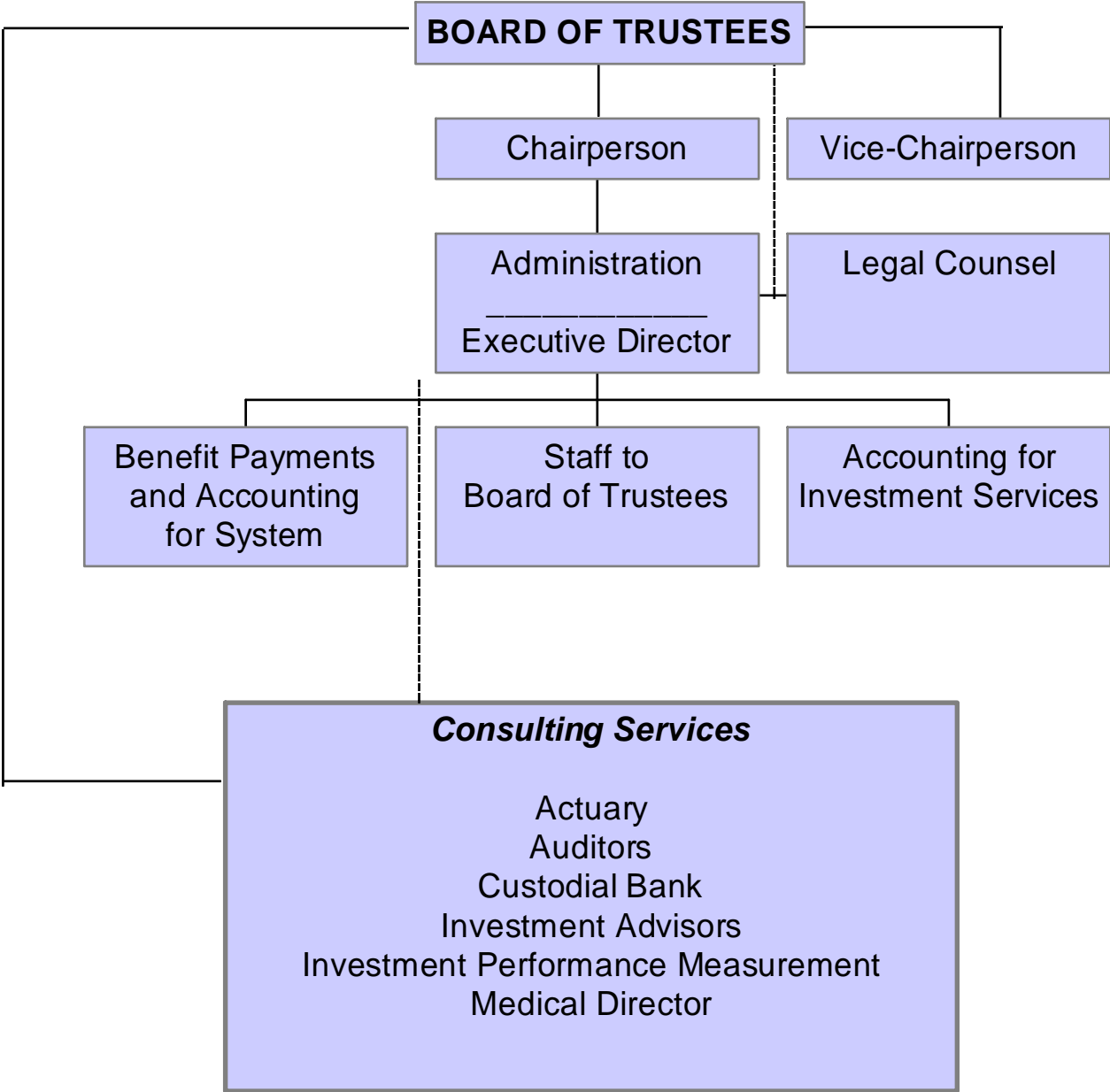
A **Custodial Bank** is retained by the Board for the safeguarding and maintenance of Retirement System assets.

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.

In addition to the annual report to Mayor and City Council required by the Retirement Ordinance, the Board of Trustees also provides a summary annual report to plan participants and beneficiaries in accordance with the State of Michigan Public Employee Retirement System Investment Act.

City of Ann Arbor Employees' Retirement System



FUNDING AND SYSTEM OPERATIONS

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 payroll. On a long-term investment basis, the Retirement System is funded at 93.6%. The long-term basis uses a "smoothed asset value" when calculating the funded status of the Plan. The smoothed asset value averages investment gains and losses over a five year period in order to reduce volatility that may occur in any one year, such as 2008 or 2009. Consistent with the broader market, the Retirement System's financial experience was also unfavorable during the year ending June 30, 2009 where Plan assets fell 27% due to investment losses. The investment experience will increase Contributions required by the City over the next several years absent significant investment gains. The revenues essential to the sound funding of the Retirement System are derived from three sources.

Contributions by Members: Members contributed \$2,815,000 to the System for the fiscal year ended June 30, 2009. The member contributions are calculated on all monetary compensation, including overtime. All members are required to contribute 5% of 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 the amount of accumulated contributions together with interest credited to the member's individual account. With five or more years of service, a member may choose to elect a deferred retirement providing income at age 60. If an active member dies prior to retirement and no monthly survivor benefits are payable under the Retirement System 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, 2009, the City's contribution was \$14,725,701. This contribution consisted of the annual City contribution to the System, \$6,921,781 which covers the annual cost of providing benefits to the Members as well as a payment toward the under-funding in the Plan. The other component of the City's Contribution this year, \$5,318,574, was attributable to funding the retiree healthcare Plan for current Members. The remaining amount of \$2,485,346 was to fund the contribution requirement of the Early Retirement Option Program which was an agreement between the City and the Ann Arbor Police Officers Association (AAPOA) and the Command Officers Association of Michigan (COAM). The City is projected to pay \$7,559,781 for fiscal year 2009/2010, and is expected to contribute \$9,005,858 for fiscal year 2010/2011. To fund the 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 contributions, in addition to the members' contributions and assumed investment income. As a result of the investment losses experienced by the Plan, the System elected to lengthen the period over which the under-funding is paid from 15 years to 30 years. This change, which is common in the industry, helped lessen some of the financial strain to the System by smoothing out the losses over a longer timeframe.

Investment Income: Investment income is the third and most important source of Retirement System revenues. For fiscal year ended June 30, 2009, the System had net investment loss of (\$80,537,000). Investment income is both a vital and major contributor to the City of Ann Arbor Employees' Retirement System and provides for and enhances the future security of Retirement System members.

Chairperson's Letter continued

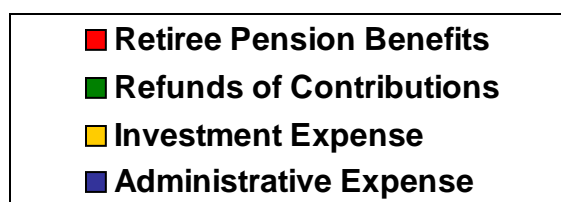
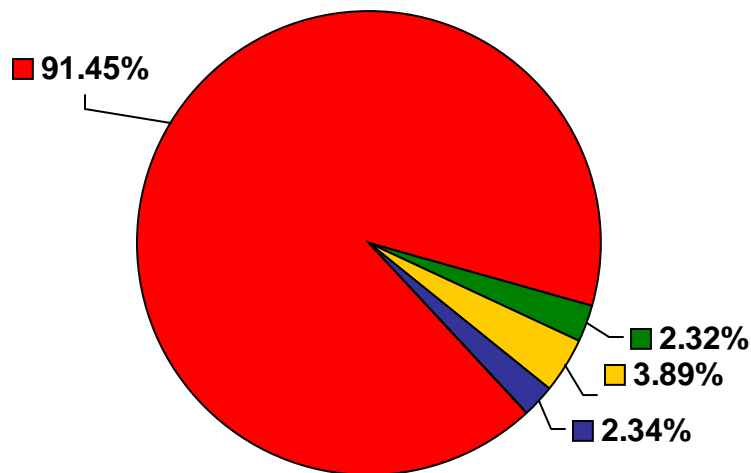
The State of Michigan charges the Board of Trustees under the Public Employee Retirement System Investment Act with the responsibility of investing the Retirement System's portfolio in a prudent and discretionary manner. Specifically, the Public Employee Retirement System Investment Act requires the 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 that any value of assets may be invested in fixed income or cash equivalent securities and permits discretion regarding the investing of up to 70% of assets in domestic common stock investment, up to 10% in equity real estate investment, up to 20% in foreign investment, and up to 10% in other forms of investment not otherwise qualified under the Act.

On June 30, 2009, the portfolio distribution of investments at market was as follows: 51.4% in domestic common stock, 10.1% in international common stock funds, 26.7% in various fixed income securities, 8.7% in real estate, and 3.1% in cash and equivalents. 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.

Expenditures of System: The cost of all benefits, services, and operations are borne by the Retirement System and totaled \$27,319,000 for the fiscal year ended June 30, 2009. The allocation of this cost was \$24,984,000 (91.45%) for retiree pension benefits, \$1,062,000 (3.89%) for investment expenses, \$640,000 (2.34%) for administrative expenses, and \$633,000 (2.32%) for refunds of employee contributions. The chart "Allocation / Use of Funds" below reflects the distribution in graph form.

ALLOCATION / USE OF FUNDS

For Year Ended June 30, 2009



HIGHLIGHTS

INVESTMENT PERFORMANCE

The total portfolio return for the year ending June 30, 2009 was (18.98%) net of fees. The total portfolio annualized return for the past three years was (8.75%) net of fees. Since inception, the total Fund returned 7.87%. A copy of the June 30, 2009 Gray & Company Measurement Review for the Retirement System is available in the Retirement Office, 532 S. Maple Rd., Ann Arbor, Michigan 48103.

City of Ann Arbor Employees' Retirement System

Performance Summary Table - Annualized Returns, Periods Ending June 30, 2009

| | Market Value | | 1 Year | 2 Years | 3 Years |
|------------------------------------|--------------------------|-------------------------|---------------|----------------|----------------|
| | <u>MV (\$000)</u> | <u>% of Fund</u> | | | |
| Large Cap Equity Composite | \$ 71,407 | 22.1 | -26.32 | -19.78 | -8.12 |
| MidCap Equity Composite | \$ 52,955 | 16.4 | -29.05 | -20.02 | -9.40 |
| Small Cap Equity Composite | \$ 35,401 | 11.0 | -22.37 | -20.29 | -9.33 |
| Subtotal Domestic Equity Composite | \$ 159,763 | 49.5 | -26.43 | -19.87 | -8.83 |
| International Equity Composite | \$ 32,317 | 10.0 | -30.45 | -18.77 | -4.79 |
| Fixed Income Composite | \$ 86,416 | 26.8 | 7.62 | 6.99 | 6.67 |
| Real Estate Composite | \$ 27,045 | 8.4 | -31.02 | -16.37 | -7.11 |
| Alternative Composite | \$ 7,000 | 2.2 | | | |
| Cash Composite | \$ 10,038 | 3.1 | -13.30 | -5.07 | -1.89 |
| Total Fund | \$ 322,579 | 100.0 | -18.82 | -12.44 | -3.87 |
| | Net of Fees | | -18.98 | -12.84 | -8.75 |



ALTERNATIVE ASSETS

The Board of Trustees adopted the following alternative assets: Hedge Funds, Timber, and High Yield Fixed Income Instruments as additional asset classes of the Pension portfolio. The Trustees adopted a formal asset allocation plan and structure whereby the Alternative Assets target is 10% of Plan assets. The main reasons for the inclusion of Alternative Assets are because of overall risk reduction, income production, and as an inflation hedge. The adoption of the 10% target was achieved via an asset allocation study utilizing the capital market expectations developed by Gray & Company and by the guidelines of Public Act 314.

ACTUARIAL VALUATION

David Kausch of Gabriel, Roeder, Smith & Company, actuaries to the Retirement System, presented the results of the Sixty-Second Annual Actuarial Valuation for the year ending June 30, 2009. A copy of the Sixty-Third Annual Actuarial Valuation is available in the Retirement Office, 532 S. Maple Rd., Ann Arbor, Michigan 48103.

The actuarial report indicates that the Retirement System continues to be well funded at 93.6% as of June 30, 2009. The City's Contribution Rate for the fiscal year 2010/2011 will be \$9,005,858. The City's contribution rate as a percentage of its payroll is 16.46% for the fiscal year beginning July 1, 2010. The following detail on page 11 shows the City's computed contributions to the Retirement System for the fiscal year beginning July 1, 2010.

FIDUCIARY PERFORMANCE REVIEW

The City of Ann Arbor Employees' Retirement System & Retiree Health Care Benefits Plan & Trust retained Ennis, Knupp & Associates, Inc. to perform a fiduciary performance review. Ennis Knupp is an independent investment consulting firm located in Chicago, Illinois. The firm specializes in conducting fiduciary reviews and has extensive experience working with public retirement systems.

The Scope of Work for the review included Benefit Processing, Member Education and Counseling Services, Confidentiality of Members' Information, Internal Controls, Governance Policies, and Personnel Practices. Ennis Knupp reviewed the polices and practices in each of the above categories and compared them to common practices and best practices.

In certain categories, Ennis Knupp found that the Retirement System and Health Care System were in line with best practices, and the remaining categories were generally consistent with common practice.

The Audit Committee of the Board along with staff have indentified and prioritized the areas where enhancements could be made to improve overall operations of the System.

Ennis Knupp made the following statement in the performance review, "Overall, CAAERS (*City of Ann Arbor Employees' Retirement System*) appears to be fundamentally sound in the areas reviewed. In our opinion, the Board and staff are dedicated to fulfilling their roles and functions, and are committed to seeking ways to improve their operations."

**CITY'S COMPUTED CONTRIBUTIONS TO THE RETIREMENT SYSTEM
FOR THE FISCAL YEAR BEGINNING JULY 1, 2010**

| | City's Contributions Expressed as Percents and Dollars Based on Valuation Payroll | | | |
|--|--|-------------------|-----------------|--------------|
| | General Members | Police Members | Fire Members | Totals |
| Normal Cost | | | | |
| Age & service | 13.16% | 20.67% | 19.76% | |
| Disability | 0.52 | 0.69 | 0.18 | |
| Pre-retirement survivor | 0.40 | 0.43 | 0.53 | |
| Termination | | | | |
| Deferred service benefits | 2.34 | 0.50 | 0.76 | |
| Refunds of member contrib. | 0.30 | 0.11 | 0.05 | |
| Total Normal Cost | 16.72 | 22.40 | 21.28 | |
| Members' Contributions | 5.00 | 5.00 | 5.00 | |
| City's Normal Cost - % | 11.72 | 17.40 | 16.28 | 13.53% |
| - \$** | | | | \$ 7,401,213 |
| Unfunded Actuarial Accrued Liabilities | | | | |
| Retirants and beneficiaries | | | | 0.00 |
| Active members* | | | | <u>2.93</u> |
| Total - % | | | | 2.93% |
| - \$** | | | | \$ 1,604,645 |
| City's Contribution Rate - % | | | | 16.46% |
| - \$** | | | | \$ 9,005,858 |

* Financed as a level percent-of-payroll. Unfunded actuarial accrued liabilities were amortized over a 30-year amortization period.

** City's dollar contribution includes a payroll projection factor of 1.0712 for General and Fire to project active member payroll to the applicable fiscal year. Police's payroll has been adjusted to reflect a permanent reduction in positions.

RETIREMENT BOARD ELECTIONS

A Retirement Board election was approved by the Board for December 9 & 10, 2009. Terry R. Clark was elected as the General Member Representative for the term beginning January 1, 2010-December 31, 2012. Jeffrey Kahan, the former General Member Representative chose not to run for re-election.

David Monroe was elected as the Police Member Representative with his term beginning January 1, 2010 - December 31, 2012. Mr. Monroe succeeded William T. Stanford.

MEMBER INTEREST CREDITS

Effective January 1, 2009, member accounts will be credited with 1.52% of interest per quarter for an annual return of 6.2%.

ACKNOWLEDGMENTS

We thank Lora Kluczynski of the Retirement System staff for her assistance in preparing this report for City Council, members of the Retirement System, and the public.

It is hoped that this report will be of interest and useful in understanding, evaluating and assuring the continued success of the Retirement System.



Nancy Sylvester
Chairperson of the Board



Willie J. Powell
Executive Director

CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM SUMMARY OF BENEFITS

DESCRIPTION OF THE SYSTEM

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. Most 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. Subsequently, the employer and employees assume the related cost liabilities. The System requires contributions which will provide assets sufficient to meet the benefits to be paid to members.

The following is a description 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.

Final Average Compensation (FAC) is a frequently used term when describing City of Ann Arbor Employees' Retirement System Benefits. It means the average of the highest three consecutive years of compensation out of the last ten. Usually, but not necessarily, it is the last three years. Some lump sum payments are included in a member's FAC.

IF A MEMBER RETIRES FROM ACTIVE SERVICE

Regular Retirement (no reduction for age):

Eligibility -

General: Age 50 with 25 years of service, or age 60 with 5 years of service.

Police-Fire: 25 years of service, or age 55 with 5 years of service.

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.

(A member may elect to receive all or a portion of his accumulated contributions in a lump sum at retirement and receive a lesser benefit).

Type of Final Average Compensation:

Highest 3 consecutive years out of last 10. Some lump sums included.

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 reduced by .33% for each whole month by which retirement precedes:

General: Later of a) age 55, or b) the age the member would have had 25 years of service, but no later than age 60.

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

IF A MEMBER IS PERMANENTLY DISABLED

Duty Disability Retirement:

Eligibility - No age or service requirement.

Annual Amount - Computed as regular retirement benefit. Upon termination of worker's compensation, additional service credit is granted for the period the retiree is in receipt of worker's compensation and the benefit is recomputed.

Non-Duty Disability Retirement:

Eligibility - 5 or more years of service.

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.

IF A MEMBER SHOULD DIE

Duty Death Before Retirement:

Eligibility - Payable upon expiration of worker's compensation to the qualified survivors of a member who died in the line of duty.

Annual Amount - Same amount that was paid by worker's compensation to spouse, children under 18 years of age and dependent parents.

Non-Duty Death Before Retirement:

Eligibility - 5 years of service.

Annual Amount - Computed as regular retirement but actuarially reduced in accordance with 100% joint and survivor election. A benefit is paid automatically to a surviving spouse or to a named beneficiary duly elected by the member. If there is no automatic surviving spouse or named beneficiary, a lump sum equal to 80% of the actuarial present value of the deceased member's accrued retirement benefit will be payable to the legal representative.

IF A MEMBER TERMINATES MEMBERSHIP

Deferred Retirement (Vested Benefit):

Eligibility - 5 years of service. 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.)

POST-RETIREMENT INCREASES TO RETIREMENT ALLOWANCE

Post-Retirement Adjustments:

Adjustments may be made every July 1 to retirants and beneficiaries on the rolls at least 12 months from the effective date of retirement. Adjustments are funded by financial gains, and approved by the Board of Trustees. Increases are not guaranteed.

MEMBER CONTRIBUTIONS

General: 5% of annual compensation.
Police/Fire: 5% of annual compensation.

FINANCIAL SECTION



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 Auditor's Report
Audited Financial Statements**

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan net assets of the City of Ann Arbor Employees' Retirement System as of June 30, 2009 and 2008, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City of Ann Arbor Employees' Retirement System's management. 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 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.

As discussed in Note A, the financial statements present only the City of Ann Arbor Employees' Retirement System and do not purport to, and do not present fairly the financial position of the City of Ann Arbor, Michigan, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Ann Arbor Employees' Retirement System as of June 30, 2009 and 2008, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and historical pension information, as identified in the table of contents, are not required parts of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 18, 2009

East Lansing ■ Rochester Hills ■ St. Johns

City of Ann Arbor
Employees' Retirement System

STATEMENT OF PLAN NET ASSETS

June 30, 2009 and 2008

(amounts expressed in thousands)

| | 2009 | 2008 |
|---|------------|------------|
| ASSETS | | |
| Cash | \$ 3,721 | \$ 1,275 |
| Receivables | | |
| Interest and dividends | 925 | 979 |
| Due from the City of Ann Arbor | 11,882 | 235 |
| Total receivables | 12,807 | 1,214 |
| Investments, at fair value | | |
| Short term investments | 13,437 | 6,743 |
| U.S. government obligations | 25,398 | 41,746 |
| Municipal bonds | - | 670 |
| Collateralized mortgage obligations | 1,706 | - |
| Guaranteed investment contracts | 13,839 | 13,449 |
| Domestic and foreign corporate bonds | 41,843 | 36,800 |
| Domestic and foreign stocks | 195,366 | 264,891 |
| Real estate - direct and funds | 27,245 | 45,989 |
| Total investments | 318,834 | 410,288 |
| Capital assets at cost, net of accumulated depreciation of \$35 and \$26, respectively | 456 | 2 |
| Total assets | 335,818 | 412,779 |
| LIABILITIES | | |
| Refunds payable and other | 14,274 | 2,363 |
| Mortgage payable | 381 | - |
| Total liabilities | 14,655 | 2,363 |
| NET ASSETS | | |
| Invested in capital assets net of related debt | 75 | 2 |
| Held in trust for pension benefits | 321,088 | 410,414 |
| Total net assets | \$ 321,163 | \$ 410,416 |

City of Ann Arbor
Employees' Retirement System

STATEMENT OF CHANGES IN PLAN NET ASSETS

Years Ended June 30, 2009 and 2008

(amounts expressed in thousands)

| | 2009 | 2008 |
|---|-------------|-------------|
| ADDITIONS TO NET ASSETS | | |
| Investment income (loss) | | |
| Net appreciation (depreciation) | | |
| in fair value of investments | \$ (93,890) | \$ (30,274) |
| Interest | 5,115 | 5,699 |
| Dividends | 9,300 | 1,086 |
| | (79,475) | (23,489) |
| Total investment (loss) | | |
| Less: investment expense | (1,062) | (1,268) |
| Net investment (loss) | (80,537) | (24,757) |
| Contributions | | |
| Employer | 14,726 | 7,517 |
| Plan members | 2,815 | 2,726 |
| Total contributions | 17,541 | 10,243 |
| Total additions to net assets | (62,996) | (14,514) |
| DEDUCTIONS FROM NET ASSETS | | |
| Benefits | 24,984 | 23,976 |
| Refunds of contributions | 633 | 376 |
| Administrative expense | 640 | 634 |
| Total deductions from net assets | 26,257 | 24,986 |
| CHANGE IN PLAN NET ASSETS | (89,253) | (39,500) |
| Restated net assets - beginning of year | 410,416 | 449,916 |
| Net assets - end of year | \$ 321,163 | \$ 410,416 |

City of Ann Arbor
Employees' Retirement System

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 6/30/2009 | \$ 426,283 | \$ 455,219 | \$ 28,937 | 93.6 % | \$ 51,076 | 56.7 % |
| 6/30/2008 | 428,689 | 430,438 | 1,749 | 99.6 % | 51,287 | 3.4 % |
| 6/30/2007 | 413,712 | 413,490 | (222) | 100.1 % | 50,678 | -0.4 % |
| 6/30/2006 | 398,258 | 407,302 | 9,044 | 97.8 % | 49,627 | 18.2 % |
| 6/30/2005 | 398,690 | 384,369 | (14,321) | 103.7 % | 47,225 | -30.3 % |
| 6/30/2004 | 409,324 | 370,409 | (38,915) | 110.5 % | 47,109 | -82.6 % |

City of Ann Arbor
Employees' Retirement System

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(amounts expressed in thousands)

| <u>Year Ended June 30,</u> | <u>Annual Required Contribution</u> | <u>Percentage Contribution</u> |
|------------------------------------|---|------------------------------------|
| 2009 | \$ 6,895 | 214.0% |
| 2008 | 7,517 | 100.0% |
| 2007 | 5,039 | 100.0% |
| 2006 | 2,871 | 100.0% |
| 2005 | 1,045 | 100.0% |
| 2004 | - | 100.0% |