

# City of Bay City Police and Fire Retirement System

For the Year  
Ended  
June 30, 2013

Financial  
Statements and  
Supplementary  
Information

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

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## INDEPENDENT AUDITORS' REPORT

December 4, 2013

Board of Trustees  
City of Bay City Police and Fire Retirement System  
Bay City, Michigan

We have audited the accompanying statement of plan net position of the *City of Bay City Police and Fire Retirement System* (the "System") as of June 30, 2013, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Independent Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the auditors' 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 net position available for benefits of the City of Bay City Police and Fire Retirement System as of June 30, 2013, and changes in its plan net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 1, the financial statements present only the City of Bay City Police and Fire Retirement System pension trust fund and do not purport to, and do not present fairly the financial position of the City of Bay City, as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Rehmann Lohman LLC*

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Statement of Plan Net Position

June 30, 2013

### Assets

#### Investments, at fair value:

Money market accounts	\$ 1,083,669
Mutual funds	17,425,372
Government securities	6,781,842
Corporate debt	4,448,274
Corporate stock	<u>19,054,176</u>

Total investments	<u>48,793,333</u>
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#### Receivables:

Employer contributions	203,789
Employee contributions	57,431
Interest	108,557
Other	<u>3,880</u>

Total receivables	<u>373,657</u>
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Total assets	49,166,990
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### Liabilities

Accounts payable	<u>628,764</u>
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Net position held in trust for pension benefits	<u><u>\$ 48,538,226</u></u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Statement of Changes in Plan Net Position

For the Year Ended June 30, 2013

### Additions to net position attributed to:

#### Contributions

Employer	\$ 1,979,219
Plan members	497,166

<b>Total contributions</b>	<b><u>2,476,385</u></b>
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#### Investment income

Interest and dividends	835,935
Net appreciation in fair value of investments	5,423,769

<b>Total investment income</b>	<b>6,259,704</b>
Less investment expenses	<u>(202,076)</u>

<b>Net investment income</b>	<b><u>6,057,628</u></b>
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Other revenue	<u>4,081</u>
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<b>Total additions</b>	<b><u>8,538,094</u></b>
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### Deductions from net position attributed to:

Benefits and refunds paid to participants	4,592,651
Administrative expenses	137,749
Bad debt expense	49,085

<b>Total deductions</b>	<b><u>4,779,485</u></b>
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<b>Net increase in plan net position</b>	<b>3,758,609</b>
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### Net position held in trust for pension benefits

Beginning of year	<u>44,779,617</u>
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End of year	<b><u><u>\$ 48,538,226</u></u></b>
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The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### 1. DESCRIPTION OF THE RETIREMENT SYSTEM AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *City of Bay City Police and Fire Retirement System* (the “System”) is a single employer defined benefit pension plan established under City Charter and as such is currently exempt from the reporting requirements of the United States Department of Labor and from federal taxes. The System is considered part of the City of Bay City financial reporting entity and is included in the City's financial report as a pension trust fund.

Benefit provisions of the System are established and may be amended by the City Commission.

The System is a contributory plan which covers substantially all sworn personnel of the Bay City Police and Fire Departments. At June 30, 2012, the date of the most recent actuarial valuation, participating employees consisted of:

Retirees and beneficiaries currently receiving benefits	168
Terminated vested members	6
Current active members	<u>95</u>
 Total	 <u><u>269</u></u>

Additional information concerning the System and its vesting and benefit provisions follows:

#### Police Patrol Officers

#### Retirement Benefits

Pension benefits for employees shall be governed as it presently exists or as amended under Article XXVIII of the City Charter of the City of Bay City.

- a. An employee is eligible for retirement after ten (10) years of service with age fifty-five (55) at a two and one-half percent (2.5%) multiplier. An employee is eligible for retirement after twenty-five (25) years service at a two and eight-tenths percent (2.8%) multiplier regardless of age. An employee becomes vested in the above plan after ten (10) years of service. The employee's contribution shall be ten percent (10%) of the member's gross wages, less overtime.
- b. An eligible employee's pension is calculated using the total number of years plus months of credited service and the applicable multiplier times their final average salary (best three (3) years of the last ten (10) years of service excluding accumulated sick leave payment), not to exceed seventy percent (70%) of the employee's calculated maximum pension base. A two and one-half percent (2.5%) multiplier shall be used for eligible employees retiring with less than twenty-five (25) years of credited service and with age fifty-five (55). A two and eight tenths percent (2.8%) multiplier shall be used for eligible employee retiring with twenty-five (25) years or more of credited service.

The final average salary shall include all types of monetary compensation that currently has a ten percent (10%) deduction as the employee contribution to the pension system, at the time such compensation is received by the employee, with exclusion of accumulated sick leave payment. It is noted that vacation day payment is currently included in the final average calculation. It is also noted that sick time payout is excluded in the final average calculation.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

An employee is eligible to include in the calculation of maximum pension base, a maximum bonus pay average. The employee may include a five thousand dollar (\$5,000) per year, and maximum bonus pay for the last three (3) calendar years (January - December) prior to retirement. An average of the allowable three (3) bonus pay years is included in the calculation of the maximum pension base. An employee is eligible for the inclusion of the bonus pay into the pension calculation, providing that, upon retirement, the employee contributes ten percent (10%) of the three (3) years bonus pay listed above to the employee's retirement system. Upon retirement, the employee may pay the ten percent (10%) contribution to the retirement system by deducting the contribution from a cash payout the employee may be receiving with the exclusion of annuity withdrawal, or may make a cash contribution to the retirement system. Bonus pay that may be included in the above mentioned five thousand (\$5,000), last three (3) year averages shall include types of monetary compensation that does not receive an ten percent (10%) deduction in the form of an employee contribution to the pension system, at such time the compensation is received by the employee. These types of monetary compensations include but are not limited to: overtime pay, cleaning allowance, clothing allowance, and health insurance waiver. It is noted that sick time payout is excluded from the bonus pay calculation.

- c. For the term of the contract, interest on an employee's contribution will be five percent (5%) after which time the interest calculation shall be governed as described, or as amended under Article XXVII of the City Charter of the City of Bay City.

### Pension Continuation of Deceased Retiree's Spouse

Upon the death of a retiree (or non-duty death of a member), the surviving spouse shall receive a pension equal to one-half (1/2) of the retiree's current pension. Upon the surviving spouse's death, said pension shall terminate. Pension benefits will continue upon the remarriage of a surviving spouse. Employees retiring on or after January 1, 1998, shall be eligible for a pension continuation to their surviving spouse equal to sixty-five (65%) of the retiree's pension (regardless if the spouse remarries) effective upon their death if same shall occur on or after January 1, 2000. Otherwise, in the event of said retiree's death after January 1, 1998, but prior to January 1, 2000, their surviving spouse shall receive one-half (1/2) of the retiree's pension upon death, which amount shall then increase to sixty-five (65%) of the retiree's pension effective January 1, 2000.

### Pension Escalator

Employees retiring shall receive a postretirement adjustment to their original pension benefit, (after recalculation due to annuity withdrawal), equal to three and one-half percent (3.5%) of the original benefit beginning on the fifth (5th) year anniversary of retirement; an additional three and one-half percent (3.5%) increase to the original pension benefit beginning on the tenth (10th) year anniversary of retirement; and finally, an additional increase three and one-half percent (3.5%) of the original pension benefit amount beginning on the fifteenth (15th) year anniversary of retirement.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### Police Command Officers

#### Retirement Benefits

Pension benefits for employees shall be governed as it presently exists or as amended under Article XXVIII of the City Charter of the City of Bay City.

- a. An employee is eligible for retirement after ten (10) years of service with age fifty-five (55) at a two and one-half percent (2.5%) multiplier. An employee is eligible for retirement after twenty-five (25) years service at a two and eight-tenths percent (2.8%) multiplier regardless of age. An employee becomes vested in the above plan after ten (10) years of service. The employee's contribution shall be ten percent (10%) of the member's gross wages, less overtime.
- b. An eligible employee's pension is calculated using the total number of years plus months of credited service and the applicable multiplier times their final average salary (best three (3) years of the last ten (10) years of service excluding accumulated sick leave payment), not to exceed seventy percent (70%) of the employee's calculated maximum pension base. A two and one-half percent (2.5%) multiplier shall be used for eligible employees retiring with less than twenty-five (25) years of credited service and with age fifty-five (55). A two and eight tenths percent (2.8%) multiplier shall be used for eligible employee retiring with twenty-five (25) years or more of credited service. The final average salary shall include all types of monetary compensation that currently has a ten percent (10%) deduction as the employee contribution to the pension system, at the time such compensation is received by the employee, with exclusion of accumulated sick leave payment. It is noted that vacation pay is currently included in the final average calculation. It is also noted that sick time payout is excluded in the final average calculation.

An employee is eligible to include in the calculation of maximum pension base, a maximum bonus pay average. The employee may include a five thousand dollar (\$5,000) per year, maximum bonus pay for the last three (3) calendar years (January - December) prior to retirement. An average of the allowable three (3) bonus pay years is included in the calculation of the maximum pension base. An employee is eligible for the inclusion of the bonus pay into the pension calculation, providing that, upon retirement, the employee contributes ten percent (10%) of the three (3) years bonus pay listed above to the employee's retirement system. Upon retirement, the employee may pay the ten percent (10%) contribution to the retirement system by deducting the contribution from a cash payout the employee may be receiving with the exclusion of annuity withdrawal, or may make a cash contribution to the retirement system. Bonus pay that may be included in the above mentioned five thousand dollar (\$5,000), last three (3) year averages shall include types of monetary compensation that does not receive a ten percent (10%) deduction in the form of an employee contribution to the pension system, at the time such compensation is received by the employee. These types of monetary compensation include but are not limited to: cleaning allowance, clothing allowance, and health insurance waiver. It is noted that sick time payout is excluded from the bonus pay calculation.

#### Pension Continuation for Deceased Retiree's Spouse

Upon the death of a retiree (or non-duty death of a member), the surviving spouse shall receive a pension equal to sixty-five percent (65%) of the retiree's current pension. Upon the surviving spouse's death, said pension shall terminate. Pension benefits will continue upon the remarriage of a surviving spouse. "Surviving spouse" shall mean and be limited to the person to whom the retiree/member was married to at the time the retiree/member retired/terminated his/her employment with the City.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### Pension Escalator

Effective October 1, 1998, employees retiring after said date shall receive a postretirement adjustment to their original pension benefit (after recalculation due to annuity withdrawal) equal to five percent (5%) of the original benefit beginning on the fifth (5th) year anniversary of retirement; an additional five percent (5%) increase to the original pension benefit beginning on the tenth (10th) year anniversary of retirement; and finally, an additional increase of five percent (5%) of the original pension benefit amount beginning on the fifteenth (15th) year anniversary of retirement.

### Firefighters

#### Retirement Benefits

The pension benefits for all bargaining unit employees set forth in the City Charter of the City of Bay City, Article 28, shall be incorporated herein by reference including the following changes: it is understood that upon attainment of an employee's 60th birthday, contributions by the employer and employee will cease and employee's benefits will be frozen as of that date. For any employee who has as of July 1, 1980, attained the age of 60, his pension benefits will be frozen on July 1, 1980. An employee will become vested in the pension plan after ten (10) continuous years of service. Effective July 1, 2006, employees may retire after 25 years of service regardless of age, at full pension, to be calculated at the rate of two and eight-tenths (2.8) of his final average compensation multiplied by the number of years of credited service and fractions thereof not to exceed seventy percent (70%) of maximum pension base. Employee contribution shall remain at eight percent (8%). Effective July 1, 2006, employees may retire upon attaining ten (10) years of service with age fifty-five (55) at a two and one-half percent (2.5%) multiplier.

#### Pension Continuation for Deceased Retiree's Spouse

Upon the death of a retiree, the surviving spouse shall receive a pension equal to one-half (1/2) of the retiree's pension (regardless if the spouse remarries). Upon the said spouse's death, the spouse's pension shall terminate. Employees retiring on or after July 1, 1997, shall be eligible for a pension continuation to their surviving spouse equal to sixty-five percent (65%) of the retiree's pension (regardless if the spouse remarries) effective upon their death if same shall occur on or after July 1, 1999. Otherwise, in the event of said retiree's death after July 1, 1997, but prior to July 1, 1999, their surviving spouse shall receive one-half (1/2) of the retiree's pension upon death, which amount shall then increase to sixty-five percent (65%) of the retiree's pension effective July 1, 1999. Upon the said spouse's death, the spouse's pension shall terminate. Pension Escalator (Section 11:5) shall apply to above-mentioned deceased retiree's spouse benefit. "Surviving Spouse" shall mean and be limited to the person to whom the member was married at the time the member last terminated their employment with the City.

### Pension Escalator

Effective July 1, 1997, employees retiring after said date shall receive a postretirement adjustment to their original pension benefit (after recalculation due to annuity withdrawal) equal to five percent (5%) of the original benefit beginning on the fifth-year anniversary of retirement; an additional five percent (5%) increase to the original benefit beginning on the tenth-year anniversary of retirement; and finally, an additional increase of five percent (5%) of the original pension benefit amount beginning on the fifteenth-year anniversary of retirement.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### Police Chief, Deputy Police Chief, Fire Chief and Deputy Fire Chief

The Police Chief, Deputy Police Chief, Fire Chief and Deputy Fire Chief are provided a contributory pension plan equal to the then-current coverage provided to: (1) in the case of Police Chief and Deputy Police Chief, the greater of the collective bargaining agreements for the Police Patrol Officers and the Police Command Officers; and (2) in the case of the Fire Chief and the Deputy Fire Chief, the same as the Firefighters collective bargaining agreement. Regardless, the Police Chief's and the Deputy Police Chief's along with the Fire Chief's and Deputy Fire Chief's pension plan is governed by the terms, conditions and requirements of the System. The employee's contribution shall be ten percent (10%) of the member's gross wages.

### All Participating Employees

#### *Eligibility*

In general, all Bay City Police and Fire Department personnel are eligible to participate in the system except volunteers, privately employed individuals, persons temporarily employed during emergencies, and civilian employees.

#### *Deferred Retirement*

Participants are eligible after 10 or more years of service. The benefit amount is calculated the same as a service retirement, except based on service, average final compensation and benefit multiplier in effect at termination. Benefits begin at age 55.

#### *Non-Duty Death in Service*

Benefits are payable to the surviving spouse, if any, upon the death of a member. Benefits are equal to 50% of the service retirement benefit, but not less than 25% of the maximum benefit to the spouse and 15% of the final salary for one child (unmarried and under age 18) and equal shares of 25% of final salary for two or more children.

#### *Duty Death in Service*

Participants are eligible if death occurs in the line of duty or within five years following duty disability retirement from the same cause. Benefits are equal to 33% of the final salary to the spouse and equal shares of 25% of the final salary for unmarried children under the age of 18. Benefits are offset by workers' compensation payments.

#### *Non-Duty Disability*

Benefits are payable upon total and permanent disability of a member. The amount of the benefits is the same as a service retirement, with a minimum benefit of 25% of final salary. Benefits are offset by workers' compensation payments.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### *Duty Disability*

Benefits are payable upon total and permanent disability of a member in the line of duty. Benefits are 50% of average final compensation to the age of 55 and then at the age of 55 the benefit is the same as a service retirement, with additional service credit for the period of disability. Duty-related disability pension benefits are reduced by the amount of any workers' compensation benefits received.

### *Member Contributions*

Participants are required to contribute 8% or 10% of their gross pay, with interest credited at 5% per year.

### *Annuity Withdrawal*

Benefits are actuarially reduced if the member's contributions are withdrawn at retirement. The actuarial equivalence is based on the Pension Benefit Guarantee Corporation rates in effect on the date of the member's retirement.

### *Basis of Accounting*

The financial statements of the System are prepared on the accrual basis of accounting. System member contributions are recognized in the period they are due. The City's contributions to the System are recognized when due and they have made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

### *Valuation of Investments*

Investments are reported at fair value. Securities which are traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Investments traded in the over-the-counter market and listed securities for no sale was reported on that date were valued at the last reported bid price. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Board of Trustees, with the assistance of a valuation service; and cash deposits are reported at carrying amounts which reasonably approximates fair value.

The difference between aggregate fair value and the cost of investments along with realized gains and losses on sales of investments are reflected in the Statement of Changes in Plan Net Position as net appreciation or depreciation in the fair value of investments.

### *Administrative Expenses*

The System is administered by the City of Bay City. Administrative expenses such as administrative wages, telephone and office supplies are paid by the City of Bay City and reimbursed by the System. Administrative costs are financed through investment earnings. Investment management fees, actuarial, and investment counseling fees are paid by the System.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### 2. CONTRIBUTIONS

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. During the year ended June 30, 2013, the actuarially determined employer contribution rate was 47.79% of covered payroll for firefighters, 32.17% for police patrol and 45.88% for police command.

Plan members are required to contribute 8% or 10%, subject to collective bargaining, of their annual compensation to the System. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

Contribution requirements of System members and the City are established and may be amended by the City Commission.

### 3. INVESTMENTS

State of Michigan statutes authorize the System to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in the State rated prime by at least one of the standard rating services. The System is also authorized to invest in investments authorized by Michigan Public Act 314 of 1965, including corporate stocks and bonds, U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The System's investments policy allows for all of these types of investments.

The System's investments are reported at fair value and are held in a trust fund administered by PNC Bank.

At June 30, 2013, there were no individual investments with a fair value that represents 5% or more of the System's net position. However, amounts invested in two mutual funds (Northern Trust Collective and Hexavest Eafe Equity Fund) represent 14% and 6% of the System's total assets, respectively, at June 30, 2013.

There are no investments in, loans to, or leases with parties related to the pension plan.

The investment amounts are categorized as follows at June 30, 2013:

Money market accounts	\$ 1,083,669
Mutual funds	17,425,372
Government securities	6,781,842
Corporate debt	4,448,274
Corporate stock	<u>19,054,176</u>
Total investments	<u>\$ 48,793,333</u>

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

*Interest Rate Risk.* The System's investment policy does not have specific limits on maturities of debt securities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System had the following debt securities and maturities as of June 30, 2013:

	No maturity	Due < 1 year	Due in 1-5 years	Due in 6-10 years	Due in More than 10 years
Money market accounts	\$ 1,083,669	\$ -	\$ -	\$ -	\$ -
Mutual funds	17,391,358	-	-	-	34,014
Government securities	-	-	3,186,667	675,903	2,919,272
Corporate debt	-	-	674,145	2,277,716	1,496,413
Corporate stock: Common	19,054,176	-	-	-	-
<b>Total</b>	<b>\$ 37,529,203</b>	<b>\$ -</b>	<b>\$ 3,860,812</b>	<b>\$ 2,953,619</b>	<b>\$ 4,449,699</b>

Fair value and credit ratings for investments held at year-end are summarized as follows:

	Fair Value	Moody's Investors Services Rating
Money market accounts	\$ 1,083,669	Not Rated
Mutual funds	17,425,372	AAA - N/R
Government securities	6,781,842	AAA - N/R
Corporate debt	4,448,274	AAA - B2
Corporate stock Common	19,054,176	Not Rated
<b>Totals</b>	<b>\$ 48,793,333</b>	

*Credit Risk.* The System's investment policy does not have specific limits in excess of State law on credit risk for allowable debt securities as identified above. The credit rating for each investment type is identified in the above table of investments held at June 30, 2013.

*Concentration of Credit Risk.* The System's investment policy does not have specific limits on concentration of credit risk. The System's investment policy limits maturity value that may be invested in American Depository Receipts to 15% of each equity portfolio. In addition, the System's investment policy limits maturity value that may be invested in corporate stock to 5% of the outstanding securities in one issuer.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments that are in the possession of an outside party. State law does not require and the System does not have a policy for investment custodial credit risk. However, all investments are in the name of the System and the investments are held in trust accounts with each financial institution from which they were purchased.

# CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM

## Notes to Financial Statements

### 4. INVESTMENT INCOME

Approximately 36% of the System's investments are invested in mutual funds. The mutual funds do not report earnings activity from interest and dividends, rather all earnings activity for the mutual funds is recorded only as net appreciation in the fair value of investments. The amount presented as interest and dividends income on the statement of plan net position represents only those amounts earned on money market accounts, government securities, corporate bonds and common stock.

### 5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age (b)	Unfunded Actuarial Accrued Liability (Asset) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
\$ 39,819,306	\$ 65,058,041	\$ 25,238,735	61.2%	\$ 5,228,425	482.7%

The schedules of funding progress and employer contributions, presented as required supplementary information ("RSI") following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation as follows:

Valuation date	June 30, 2012
Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	28 years
Asset valuation method	Five year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5-49% based on seniority
* Includes inflation at	4%

### 6. IMPLEMENTATION OF NEW STANDARDS

The System adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. While the classification of certain financial elements in the financial statements were revised, the implementation of this standard had no effect on net position.



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY CITY POLICE AND FIRE  
RETIREMENT SYSTEM

Required Supplementary Information  
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
1995	\$ 34,465,751	\$ 36,936,108	\$ 2,470,357	93.3%	\$ 4,738,025	52.1%
1996	38,291,651	38,489,257	197,606	99.5%	4,955,119	4.0%
1997	40,890,619	41,791,038	900,419	97.8%	5,354,387	16.8%
1998	44,936,961	44,376,073	(560,888)	101.3%	5,859,722	-
1999	48,210,388	44,601,010	(3,609,378)	108.1%	6,150,107	-
2000	49,920,655	39,255,977	(10,664,678)	127.2%	5,922,589	-
2001	48,468,116	38,017,452	(10,450,664)	127.5%	6,105,158	-
2002	46,080,307	36,417,979	(9,662,328)	126.5%	5,694,688	-
2003	42,243,440	42,568,692	325,252	99.2%	6,035,235	5.4%
2004	40,854,232	46,818,606	5,964,374	87.3%	6,140,062	97.1%
2005	40,949,739	53,676,056	12,726,317	76.3%	6,150,943	206.9%
2006	43,663,072	55,877,091	12,214,019	78.1%	6,307,684	193.6%
2007	46,365,165	59,001,185	12,636,020	78.6%	6,145,101	205.6%
2008	48,162,620	60,101,971	11,939,351	80.1%	6,123,644	195.0%
2009	45,290,860	61,088,699	15,797,839	74.1%	5,914,162	267.1%
2010	43,369,680	61,823,912	18,454,232	70.2%	5,669,560	325.5%
2011	42,095,297	64,843,292	22,747,995	64.9%	5,464,690	416.3%
2012	39,819,306	65,058,041	25,238,735	61.2%	5,228,425	482.7%

**CITY OF BAY CITY POLICE AND FIRE  
RETIREMENT SYSTEM**

**Required Supplementary Information**

(Unaudited)

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Contributions	Percent Contributed
2007	\$ 1,635,150	\$ 2,123,900 *	129.89%
2008	1,651,747	1,651,747	100.00%
2009	1,618,068	1,618,068	100.00%
2010	1,483,085	1,483,085	100.00%
2011	1,622,079	1,622,079	100.00%
2012	1,725,255	1,725,255	100.00%
2013	1,979,219	1,979,219	100.00%

\* For the year ended June 30, 2007, actual employer contributions include \$139,462 for purchases of service credit paid by the City of Bay City for recent retirees who accepted an early retirement incentive and \$349,288 that was a deposit from the Risk Management Authority for settlement of a claim filed by an employee that will be applied toward future retirement benefits.

## SUPPLEMENTARY INFORMATION

**CITY OF BAY CITY POLICE AND FIRE  
RETIREMENT SYSTEM**

**Supplementary Information**

(Unaudited)

For the Year Ended June 30, 2013

	Schedule of Changes in Reserves						
	Reserve for Employee Contribution		Reserve for Employer Contribution		Reserve for Retiree Benefit Payments	Excess Interest Reserve	Total
	Police	Fire	Police	Fire			
Beginning balance	\$ 4,077,812	\$ 4,342,372	\$ (1,526,312)	\$ 1,558,897	\$ 36,103,009	\$ 223,839	\$ 44,779,617
Additions (deductions):							
Contribution by employees	288,594	208,572	-	-	-	-	497,166
Contribution by employers	-	-	946,274	1,032,945	-	-	1,979,219
Net investment income	2,856,178	3,041,479	1,069,113	(1,091,895)	-	-	5,874,875
Transfers:							
For required earnings	-	-	(1,145,983)	(2,650,590)	3,796,573	-	-
For excess earnings	(2,653,113)	(2,854,962)	2,653,113	2,854,962	-	-	-
To increase excess interest reserves	-	-	(5,673)	(13,120)	-	18,793	-
For 13th check	-	-	-	-	-	-	-
For retired employees	-	(542,084)	-	(1,448,290)	1,990,374	-	-
Transfer per actuarial report	-	-	125,118	289,389	(414,507)	-	-
Payments, refunds and adjustments:							
Payments to pensioners and beneficiaries	-	-	-	-	(4,585,074)	-	(4,585,074)
Employee refunds	(7,577)	-	-	-	-	-	(7,577)
Adjustments	-	(11,171)	-	-	11,171	-	-
Ending balance	<u>\$ 4,561,894</u>	<u>\$ 4,184,206</u>	<u>\$ 2,115,650</u>	<u>\$ 532,298</u>	<u>\$ 36,901,546</u>	<u>\$ 242,632</u>	<u>\$ 48,538,226</u>