

City of Ann Arbor Employees' Retirement System

Financial Statements

June 30, 2021



Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statements of Fiduciary Net Position	3
Statement of Changes in Fiduciary Net Position	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Investment Returns	18
Schedule of Changes in the City's Net Pension Liability (Asset) and Related Ratios	19
Schedule of City Contributions	20



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Independent Auditors' Report

To the Board of Trustees
City of Ann Arbor Employees' Retirement System

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, 2021, and the related statements of changes in fiduciary net position for the year 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 retirement benefits at June 30, 2021 and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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, 2021, 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. 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.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
October 12, 2021

City of Ann Arbor
Employees' Retirement System
Statement of Fiduciary Net Position
June 30, 2021

Assets

Investments, at fair value	
Equities	\$ 437,519,322
Fixed income	128,439,272
Other	<u>66,259,684</u>

Total investments 632,218,278

Equity in City of Ann Arbor pooled cash and investments	980,963
Accounts Receivable	1,500
Accrued interest and dividends	344,947
Due from other funds	139,463
Capital assets, net	<u>323,958</u>

Total assets 634,009,109

Deferred Outflows of Resources

Deferred amount of pension expense related to net pension liability	52,963
Deferred amount of OPEB expense related to net OPEB liability	<u>79,987</u>

Total deferred outflows of resources 132,950

Total assets and deferred outflows of resources 634,142,059

Liabilities

Accounts payable and accrued liabilities	3,548,113
Mortgage payable, due in one year	34,106
Mortgage payable, due in more than one year	35,640
Net pension liability	272,089
Net OPEB liability	<u>469,296</u>

Total liabilities 4,359,244

Deferred Inflows of Resources

Deferred amount on net pension liability	295,639
Deferred amount on OPEB liability	<u>18,605</u>

Total deferred inflows of resources 314,244

Total liabilities and deferred inflows of resources 4,673,488

Net position restricted for pensions \$ 629,468,571

City of Ann Arbor
Employees' Retirement System
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2021

Additions

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 131,247,289
Interest and dividends	<u>6,291,276</u>
Total investment income	137,538,565
Investment management fees	<u>(540,311)</u>
Net investment income from investing activities	<u>136,998,254</u>
From securities lending activities	
Gross earnings	698
Borrower rebates paid	(1,254)
Securities lending fees	<u>584</u>
Net investment income from securities lending activities	<u>28</u>
Total net investment income	<u>136,998,282</u>
Contributions	
Employer	15,805,164
Plan members	<u>3,536,902</u>
Total contributions	<u>19,342,066</u>
Total Additions	<u>156,340,348</u>
Deductions	
Benefits	39,937,793
Refunds	674,096
Administrative expenses	<u>555,410</u>
Total Deductions	<u>41,167,299</u>
Change in net position	115,173,049
Net position - beginning of year	<u>514,295,522</u>
Net position - end of year	<u><u>\$ 629,468,571</u></u>

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Note 1 - Plan Description

Plan Administration

The City of Ann Arbor Employees' Retirement System (the "System") is a single employer defined benefit retirement plan established and administered by the City of Ann Arbor which provides pension, disability and death benefits to general, police and firefighter employees and their beneficiaries. Cost of living adjustments may be provided to members and beneficiaries. The City Charter assigns the authority to establish and amend benefit provisions to the City Council. The financial statements of the System are included as a pension trust fund in the City's financial statements.

Management of the System is vested in the City of Ann Arbor Employees' Retirement System Board of Trustees, which consists of nine members, three are elected (representing fire, police and general City employees), five are appointed by the City Council of the City of Ann Arbor and one is the Chief Financial Officer of the City of Ann Arbor, who serves as ex-officio member.

Plan Membership

At June 30, 2020, System membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	1,102
Terminated employees entitled to but not yet receiving benefits	103
Active members	<u>725</u>
Total Membership	<u><u>1,930</u></u>

Benefits Provided

The System provides retirement, disability, and death benefits. Retirement benefits for general plan members are calculated as 2.5 percent of the member's final three-year average salary or five-year average salary depending on hire date, times the member's years of service. Benefits for public safety plan members (police and fire) are calculated as 2.75 percent of the member's final three-year average salary or five-year average salary depending on hire date, times the member's years of service. Effective January 1, 2017, the Retirement System was amended and restated to add to the existing defined benefit plan (to be called the "Traditional Retirement Plan"), a defined contribution money purchase pension plan (the "Dual Retirement Plan") which will only apply to non-union, AFSCME, and Teamsters Civilian Supervisor employees first hired or rehired on or after January 1, 2017. Employees who are members of the Dual Retirement Plan will also participate in and accrue benefits under the Traditional Retirement Plan, but at a rate of accruals that is 50% of the rate of accruals for members of the Traditional Retirement Plan who were hired or rehired prior to January 1, 2017. Certain collective bargaining units may agree that newly hired or rehired members of that union will be covered by the Dual Retirement Plan on dates after January 1, 2017. The Traditional Retirement Plan and the Dual Retirement Plan are together called the City of Ann Arbor Employees Retirement System (CAAERS).

General plan members with 20 years of service are eligible to retire at age 50 with an early retirement reduction of .333 percent for each month that retirement precedes the normal retirement date. Public safety plan members with 20 years of service are eligible to retire at age 50 with an early retirement reduction of .333 percent for each month that retirement precedes the normal retirement date.

General plan members may retire with an unreduced benefit at age 50 after 25 years of service, or age 60 with 5 or 10 years of service depending on hire date. Public safety plan members may retire at any age after 25 years of service, or at age 55 with 5 or 10 years of service depending on hire date. Deferred members may retire at age 60 with 5 or 10 years of service depending on date of hire. All plan members are eligible for non-duty disability benefits after 5 or 10 years depending on date of hire, and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

A plan member who leaves City service may withdraw his or her contributions plus any accumulated interest. A withdrawal may reduce or even eliminate any future benefit payable under a deferred vested retirement.

The System offers a minimum benefit of \$9,800 adjusted by a cost of living factor each year and prorated for less than 20 years of service. In addition, annually, the Board of Trustees, in consultation with its actuary and upon receipt of the actuarial report for each fiscal year, determines whether to grant a permanent pension benefit adjustment or pay a one-time supplemental benefit based upon the amount, if any, of funds in the pension adjustment account which may be distributed to eligible retirees and beneficiaries. The aggregate cost of such benefit adjustment or supplemental benefit distribution is funded by a transfer from the pension adjustment account to the pension reserve. No pension benefit adjustment or supplemental benefit can be paid unless the amount available in the pension adjustment account is equal to or greater than 1% of the total pension payroll. The term "total pension payroll" means the total amount of pension benefits paid to retirees and beneficiaries in the prior fiscal year as reflected in the annual actuarial report.

Contributions – Traditional Plan

All plan members hired before January 1, 2017, are required to participate in the Traditional Retirement Plan administered by the City of Ann Arbor Employee's Retirement System. The members of the Traditional plan are required to contribute 6% of annual compensation. Effective in 2020, certain Fire union members, based on date of hire are required to contribute 6.5% of annual compensation. The City is required to contribute at an actuarially determined rate; the rates for 2021 were 25.62% to 38.35%. Plan provisions and contribution requirements are established and can be amended by the City Council. System administrative costs are financed through investment earnings.

Contributions – Dual Retirement Plan

All plan members hired after January 1, 2017, except for Ann Arbor Police Officers' Association, Command Officers' Association of Michigan, and Fire union employees, are required to participate in a hybrid pension plan (Dual Retirement Plan) administered by the City of Ann Arbor Employee's Retirement System. The Dual Retirement Plan is comprised of two components: a defined benefit plan and a defined contribution plan. Under the defined benefit plan, the City contributes at an actuarially determined rate and employees contribute 3% of their wages. Employees vest 100% in the Defined Benefit Plan after 10 years of service.

Under the defined contribution plan, the employees contribute 3% of their wages and the employer contributes 5.2% for General members and 6.88% for Assistant Fire Chiefs and Deputy Police Chiefs. Employees vest 100% in the defined contribution plan after five years of service. In accordance with these requirements, the City had net contributions (contributions less forfeitures) of \$520,869 and the employees contributed \$342,595.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

Valuation of Investments

The System's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) 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 System's governing body, with the assistance of a valuation service; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Deferred Outflows of Resources

In addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense) until then. The System reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. Further information regarding deferred outflows of resources and the pension plan to which it relates is presented in the City of Ann Arbor's comprehensive annual financial report.

Deferred Inflows of Resources

This separate financial statement element represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Further information regarding deferred inflows of resources and the pension plan to which it relates is presented in the City of Ann Arbor's comprehensive annual financial report.

Capital Assets

Capital assets are reported (net of accumulated depreciation) in the statement of fiduciary net position. Capital assets are defined by the System as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current or prior fiscal year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives: building and improvements - 40 years; equipment and furniture - 3 to 15 years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Deposits, Investments, and Securities Lending

The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash or equity in the City of Ann Arbor pooled cash and investments in the statements of fiduciary net position are composed entirely of amounts held by the City of Ann Arbor as part of its cash pool. As a result, the insured and uninsured amounts related to these accounts cannot be determined.

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The System's governing body has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's investments; all investment decisions are subject to Michigan law and the investment policy established by the governing body.

Investment Allocation Policy

The System's policy in regard to the allocation of invested assets is established and may be amended by the Retirement System Board of Trustees. The policy pursues an investment strategy that protects the financial health of the System and reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. System assets will be invested in the broad investment categories and asset classes to achieve the allocation targets below. Recognizing that asset returns may vary, causing fluctuations in the relative dollar value levels of assets within classes, the System may not maintain strict adherence to the targets in the short-term, but may allow the values to fluctuate within these ranges. Over the long-term, the System will strive to adhere to the given targets as financially practicable and move toward target allocations in a prudent manner consistent with its fiduciary duty.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

The adopted asset allocation policy as of June 30, 2021 is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Allocation Range</u>
Equities		
Domestic equities	36%	25% to 42%
Developed foreign equities	14%	9% to 17%
Emerging markets equities	7%	0% to 10%
Private equity	5%	0% to 7%
Total equities	<u>62%</u>	<u>34% to 76%</u>
Fixed income		
Investment grade bonds	12%	8% to 24%
TIPS (Treasury inflation-protected securities)	2%	0% to 10%
Emerging market bonds	2%	0% to 4%
High yield bonds	3%	1% to 5%
Bank loans	2%	0% to 4%
Total fixed income	<u>21%</u>	<u>9% to 47%</u>
Other investments		
Real estate	9%	2% to 12%
Natural resources	3%	0% to 5%
Infrastructure	3%	0% to 5%
Hedge funds	2%	1% to 5%
Cash	0%	0% to 5%
Total other investments	<u>17%</u>	<u>3% to 32%</u>
Total investments	<u>100%</u>	

The investment allocation policy will be reviewed periodically to ensure that the objectives and constraints remain relevant. However, the Trustees recognize the need for a stable long-term policy for the System and major changes to this policy will be made only when significant developments in the circumstances, objectives or constraints of the System occur.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Investment holdings

The System's investments are held by an independent trust company. Following is a summary of the System's investments as of June 30, 2021: (investments at fair value, as determined by quoted market price).

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>	<u>Securities Lending</u>
Equities				
Common stock	\$ 143,019,541	\$ 1,338,652	\$ 144,358,193	\$ 1,627,150
Common stock funds	116,877,112	138,597,761	255,474,873	-
Private equity	35,188,484	-	35,188,484	-
Mutual funds-equity	<u>1,750,216</u>	<u>747,556</u>	<u>2,497,772</u>	<u>-</u>
Total equities	<u>296,835,353</u>	<u>140,683,969</u>	<u>437,519,322</u>	<u>1,627,150</u>
Fixed income				
Government agency funds	35,947,801	-	35,947,801	-
Corporate bonds	30,001,755	4,130,995	34,132,750	-
Bank loan participation	10,903,223	-	10,903,223	-
Private credit	10,364,400	-	10,364,400	-
Index linked government bonds	18,340,164	-	18,340,164	-
Mutual funds-fixed income	<u>5,724,279</u>	<u>13,026,655</u>	<u>18,750,934</u>	<u>-</u>
Total fixed income	<u>111,281,622</u>	<u>17,157,650</u>	<u>128,439,272</u>	<u>-</u>
Other investments				
Infrastructure	-	514,611	514,611	-
Real estate - funds & REITS	45,710,081	-	45,710,081	-
Real estate - private credit	1,820,086	-	1,820,086	-
Hedge funds	-	3,678,941	3,678,941	-
Short-term investment funds	14,265,920	-	14,265,920	-
Mutual funds-other	<u>270,045</u>	<u>-</u>	<u>270,045</u>	<u>-</u>
Total other investments	<u>62,066,132</u>	<u>4,193,552</u>	<u>66,259,684</u>	<u>-</u>
Total investments	<u>\$ 470,183,107</u>	<u>\$ 162,035,171</u>	<u>\$ 632,218,278</u>	<u>\$ 1,627,150</u>

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name. Short-term investments in money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments in any particular asset class may or may not be consistent with the objectives of the System. The investment policy statement specifically indicates permissible asset classes, including high yield fixed income and alternatives, in appropriate target percentages.

The System's investments in government agency funds, corporate bond funds, bank loan participation, private credit, and index linked government bonds (each of which are essentially funds) are not rated.

The System's fixed income securities consisted of the following at June 30, 2021:

	<u>2021</u>
Government agency funds	\$ 35,947,801
Corporate bonds	34,132,750
Bank loan participation	10,903,223
Private credit	10,364,400
Index linked government bonds	18,340,164
Mutual funds-fixed income	<u>18,750,934</u>
	<u>\$ 128,439,272</u>

The System's investments in corporate bond funds and hedge funds are not rated; also, the other fixed income securities at June 30, 2021 were essentially in "funds" and therefore not rated, with the exception of corporate bonds.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that no more than 5 percent of the total fund be invested in any one company or governmental agency.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy requires a maximum term to maturity of 30 years for any single fixed income security. The System's investment policy does not address weighted average portfolio maturities.

Inasmuch as all of the debt or fixed income securities as of June 30, 2021, except for the corporate bonds, are essentially held in funds by the portfolio managers, maturity information is not available.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on plan investments, net of investment expenses, was 26.74 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Securities Lending

A contract approved by the System's Board of Trustees, permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial trust company manages the securities lending program and receives securities, cash or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral is initially pledged at 102 percent of the market value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned.

At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

At June 30, 2021, the total collateral received from borrowers had a fair value of \$1,670,029, all of which was cash.

Fair Value Measurements

The System categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles.

Level 1 Measurements – common stocks are valued at the closing price reported on the active market on which the individual security is traded. The fair values of the mutual funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Shares held in mutual funds are traded on national securities exchanges and are valued at the net asset value on the last business day of each period presented. Short-term investment funds are valued at cost which approximates fair value.

Level 2 Measurements – the Level 2 investments are collective funds which are primarily invested in common stocks and fixed income securities. The fair value of these funds is based on the net asset value per share as reported by the investment manager by reference to the underlying assets.

Level 3 Measurements – The Trustees and Fund Staff periodically evaluates the fair values of the investment in Level 3, incorporating a review of methods and assumptions used by the investment managers and administrators of the funds in valuing the assets. The fair values of interests held in "Funds and REITS" commingled vehicles are based on the fair values of the underlying real estate assets, as estimated by the investment manager, which the Plan has not adjusted, and are determined using one or more valuation techniques for which sufficient and reliable data is available. The fair value for interests held in limited partnerships, "Private Credit", "Private Equity", and "Corporate Bonds", are determined by the general partners, which the Plan has not adjusted, and is based on the most recent capital account assets. Following the end of the investment period, income and realization proceeds are distributed to investors, making the partnerships self-liquidating over their life. The fair value of interests held in "Bank Loan Participation" is based on the fair values of the underlying floating rate bank loan securities as estimated by the investment manager, which the Plan has not adjusted. The fair value of interests held in "Hedge Funds" is based on the fair value of the underlying currency, options, futures and forwards, commodity, equity, fixed income, and other securities the funds might hold. The underlying investments are principally exchange traded assets and the fair value of the Plan's interests is based on the statements provided by the manager, which the Plan has not adjusted.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

The System had the following recurring fair value measurements as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities				
Common stock	\$ 144,358,193	\$ -	\$ -	\$ 144,358,193
Common stock funds	70,370,729	185,104,144	-	255,474,873
Private equity	328,000	-	34,860,484	35,188,484
Mutal funds equity	<u>2,497,772</u>	<u>-</u>	<u>-</u>	<u>2,497,772</u>
Total equities	<u>217,554,694</u>	<u>185,104,144</u>	<u>34,860,484</u>	<u>437,519,322</u>
Fixed income				
Government agency funds	-	35,947,801	-	35,947,801
Corporate bonds	-	30,001,754	4,130,996	34,132,750
Bank loan participation	-	-	10,903,223	10,903,223
Private credit	-	-	10,364,400	10,364,400
Index linked government bonds	-	18,340,164	-	18,340,164
Mutal funds - fixed income	<u>13,369,427</u>	<u>5,381,507</u>	<u>-</u>	<u>18,750,934</u>
Total fixed income	<u>13,369,427</u>	<u>89,671,226</u>	<u>25,398,619</u>	<u>128,439,272</u>
Other investments				
Infrastructure	-	-	514,611	514,611
Real estate - funds & REITS	-	-	45,710,081	45,710,081
Real estate - private credit	-	-	1,820,086	1,820,086
Hedge funds	-	-	3,678,941	3,678,941
Short-term investment funds	14,265,920	-	-	14,265,920
Mutal funds - other	<u>270,045</u>	<u>-</u>	<u>-</u>	<u>270,045</u>
Total other investments	<u>14,535,965</u>	<u>-</u>	<u>51,723,719</u>	<u>66,259,684</u>
Total investments	<u>\$ 245,460,086</u>	<u>\$ 274,775,370</u>	<u>\$ 111,982,822</u>	<u>\$ 632,218,278</u>

**City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021**

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets being depreciated:				
Buildings and improvements	\$ 471,556	\$ -	\$ -	\$ 471,556
Less accumulated depreciation for:				
Buildings and improvements	(135,746)	(11,852)	-	(147,598)
Total capital assets, net	<u>\$ 335,810</u>	<u>\$ (11,852)</u>	<u>\$ -</u>	<u>\$ 323,958</u>

Note 5 - Long-Term Debt

On September 1, 2008, the System acquired real property through a \$400,000 mortgage that requires semiannual payments of \$18,417 through March 1, 2023 that includes interest at 4.45 percent. The outstanding balance on the mortgage as of June 30, 2021 was \$69,746 after principal payments of \$32,637 for 2021.

The annual requirement to pay principal and interest on the mortgage is as follows:

Year Ending June 30,	Principal	Interest
2022	\$ 34,106	\$ 2,729
2023	<u>35,640</u>	<u>1,194</u>
	<u>\$ 69,746</u>	<u>\$ 3,923</u>

Note 6 - Net Pension Asset of the City

The components of the net pension asset of the City at June 30, 2021, are as follows:

Total pension liability	\$ 625,228,357
Plan fiduciary net position	<u>(626,250,148)</u>
City's net pension asset	<u>\$ (1,021,791)</u>
 Plan fiduciary net position as a percentage of the total pension liability	 100.16%

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020 (and rolled forward to June 30, 2021), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	General: 4.0% - 7.5% Police: 5.3% - 11.0% Fire: 5.4% - 10.8%
Investment rate of return	6.9 percent, net of pension plan investment expense, including inflation
Mortality rates	RP-2014 Healthy Employees and Annuitants, Adjusted back to 2006, Generational Under Projection Scale MP-2017

The actuarial assumptions used in the June 30, 2021 GASB Statement No. 67 and 68 valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the System's investment allocation policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equities	
Domestic equities	4.7%
Developed foreign equities	5.0%
Emerging markets equities	6.0%
Private equities	7.0%
Fixed income	
Investment grade bonds	-0.3%
Private debt	4.7%
TIPS (Treasury inflated-protected securities)	-0.3%
High yield bonds	2.1%
Bank loans	1.9%
Emerging market debts	1.8%
Other investments	
Real estate	4.8%
Natural resources	5.2%
Infrastructure	4.9%
Hedge funds	2.2%
Cash	-1.0%

Discount Rate

The discount rate used to measure the total pension liability was 6.9 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Ann Arbor
Employees' Retirement System
Notes to the Financial Statements
June 30, 2021**

Sensitivity of the Net Pension Asset to Changes in Discount Rate

The following presents the net pension asset of the City, calculated using the discount rate of 6.9 percent, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.9 percent) or 1-percentage-point higher (7.9 percent) than the current rate:

	1% Decrease (5.9%)	Current Discount (6.9%)	1% Increase (7.9%)
City's net pension liability (asset)	\$ 67,089,113	\$ (1,021,791)	\$ (58,424,583)

Note 7 - Reconciliation of Plan Fiduciary Net Position

As mentioned in the Contribution section in Note 1, the System modified the retirement plan in 2017 to a hybrid retirement plan that operates as both a defined contribution and benefit plan for participants. The addition of the new plan requires reconciliation of the plan fiduciary net position.

The reconciliation of the "Plan fiduciary net position per Schedule of Changes in Net Position and Related Ratios" and "Net position per Statement of Fiduciary Net Position" of the System at June 30, 2021, is as follows:

	2021
Plan fiduciary net position per Schedule of Changes in Net Position and Related Ratios	\$ 626,250,148
Defined contribution plan assets for the year ended	3,139,956
Current year GASB 68 expense	74,365
Current year GASB 75 expense	4,102
Net position per Statement of Fiduciary Net Position	\$ 629,468,571

City of Ann Arbor
Employees' Retirement System
Required Supplementary Information
Schedule of Investment Returns
Last Nine Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2013	12.69%
2014	14.01%
2015	4.35%
2016	0.50%
2017	11.93%
2018	7.02%
2019	6.07%
2020	4.45%
2021	26.74%

Note: GASB 67 was implemented in fiscal 2014. This schedule is being built prospectively; ultimately, 10 years of data will be presented.

City of Ann Arbor
Employees' Retirement System
Required Supplementary Information
Schedule of Changes in the City's Net Pension Liability (Asset) and Related Ratios
Last Eight Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Change in total pension liability								
Service cost	\$ 10,172,596	\$ 9,922,176	\$ 9,783,377	\$ 9,403,000	\$ 8,869,000	\$ 8,729,000	\$ 9,760,000	\$ 9,802,000
Interest on the total pension liability	41,832,292	40,637,790	40,055,937	38,552,000	37,755,000	36,925,458	35,978,096	34,400,755
Experience differences	(5,188,914)	5,221,388	(2,982,853)	15,517,000	3,488,000	(3,826,000)	279,000	3,834,000
Other changes	6,182,687	1,248,573	-	4,342	30,337	-	-	-
Benefit payments and refunds	<u>(40,576,348)</u>	<u>(39,605,298)</u>	<u>(37,622,046)</u>	<u>(36,715,000)</u>	<u>(35,436,000)</u>	<u>(33,960,032)</u>	<u>(32,667,512)</u>	<u>(32,011,444)</u>
Net change in total pension liability	12,422,313	17,424,629	9,234,415	26,761,342	14,706,337	7,868,426	13,349,584	16,025,311
Total pension liability - beginning	<u>612,806,044</u>	<u>595,381,415</u>	<u>586,147,000</u>	<u>559,385,658</u>	<u>544,679,321</u>	<u>536,810,895</u>	<u>523,461,311</u>	<u>507,436,000</u>
Total pension liability - ending (a)	625,228,357	612,806,044	595,381,415	586,147,000	559,385,658	544,679,321	536,810,895	523,461,311
Change in plan fiduciary net position								
Employer contributions	15,284,295	14,124,165	13,621,926	13,446,000	13,253,000	13,352,412	13,091,474	11,227,290
Employee contributions	3,194,016	3,164,729	3,264,590	3,185,000	3,325,000	3,139,266	3,013,353	2,948,177
Pension plan net investment income	136,319,258	23,143,999	30,599,351	33,235,000	54,243,000	2,434,399	20,144,251	60,253,683
Benefit payments and refunds	(40,576,348)	(39,605,298)	(37,622,046)	(36,715,000)	(35,436,000)	(33,960,032)	(32,667,512)	(32,011,444)
Pension plan administrative expense	(604,004)	(689,228)	(671,194)	(694,000)	(748,000)	(719,621)	(683,980)	(644,051)
Other	<u>(43,329)</u>	<u>(360,337)</u>	<u>(29,397)</u>	<u>299,982</u>	<u>16,337</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	113,573,888	(221,970)	9,163,230	12,756,982	34,653,337	(15,753,576)	2,897,586	41,773,655
Plan fiduciary net position - beginning	512,676,260	512,898,230	503,735,000	491,273,658	456,620,321	472,373,897	469,685,311	427,911,656
Restatement for pension liability	-	-	-	-	-	-	(209,000)	-
Restatement for net OPEB liability	-	-	-	(295,640)	-	-	-	-
Plan fiduciary net position - ending (b)	<u>626,250,148</u>	<u>512,676,260</u>	<u>512,898,230</u>	<u>503,735,000</u>	<u>491,273,658</u>	<u>456,620,321</u>	<u>472,373,897</u>	<u>469,685,311</u>
City's net pension liability (asset) (a-b)	<u>\$ (1,021,791)</u>	<u>\$ 100,129,784</u>	<u>\$ 82,483,185</u>	<u>\$ 82,412,000</u>	<u>\$ 68,112,000</u>	<u>\$ 88,059,000</u>	<u>\$ 64,436,998</u>	<u>\$ 53,776,000</u>
Plan fiduciary net position as a percentage of the total pension liability	100.16%	83.66%	86.15%	85.94%	87.82%	83.83%	88.00%	89.73%
Covered employee payroll	\$ 60,232,543	\$ 57,970,915	\$ 57,077,636	\$ 55,459,000	\$ 53,583,000	\$ 50,057,000	\$ 49,638,000	\$ 47,956,745
City's net pension liability (asset) as a percentage of covered payroll	-1.70%	172.72%	144.51%	148.60%	127.11%	175.92%	129.81%	112.13%

**City of Ann Arbor
Employees' Retirement System
Required Supplementary Information
Schedule of City Contributions
Last Eight Fiscal Years**

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2014	\$ 11,217,000	\$ 11,227,290	\$ (10,290)	\$ 47,956,745	23.4%
6/30/2015	12,327,000	13,091,474	(764,474)	47,956,745	27.3%
6/30/2016	12,233,000	13,352,412	(1,119,412)	49,638,000	26.9%
6/30/2017	11,348,853	13,352,412	(2,003,559)	53,583,000	24.9%
6/30/2018	11,757,000	13,446,000	(1,689,000)	55,459,000	24.2%
6/30/2019	13,464,778	13,621,926	(157,148)	57,077,636	23.9%
6/30/2020	14,092,966	14,124,165	(31,199)	57,970,915	24.4%
6/30/2021	15,251,454	15,284,295	(32,841)	60,232,543	25.4%

Note: GASB 67 was implemented in fiscal 2014. This schedule is being built prospectively; ultimately, 10 years of data will be presented.

Notes to Schedule of Employer Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30 that is 12 months prior to the beginning of the fiscal year for which the contributions are reported.

Other information There were no benefit changes during the year.

Methods and assumptions used to determine contribution rates:

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	22 years closed until 15 years at which a 15 year open period is used
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	General: 4.0% - 7.5% Police: 5.3% - 11.0% Fire: 5.4% - 10.8%
Investment rate of return	7.0% net of pension plan investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality rates	RP-2014 Healthy Employees and Annuitants, Adjusted back to 2006, Generational Under Projection Scale MP-2017