

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Year Ended
June 30, 2014

Financial
Statements and
Supplementary
Information

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CITY OF BATTLE CREEK, MICHIGAN POLICE AND FIRE RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

December 18, 2014

To the Retirement Board
City of Battle Creek, Michigan
Police and Fire Retirement System
Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying statement of plan net position of the *City of Battle Creek, Michigan Police and Fire Retirement System* (the "System") as of and for the year ended June 30, 2014, and the related statement of changes in plan net position 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 System'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.

Implementation of GASB Statement No. 67

The System implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the current year. While there was no effect on the amounts reported in the financial statements themselves, there were substantial changes to the disclosures found in the notes to the financial statements, including the calculation of the System's net pension liability, which will be required to be recorded by the City of Battle Creek, Michigan in its next fiscal year. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the plan net position of the City of Battle Creek, Michigan Police and Fire Retirement System, as of June 30, 2014, and the related statement of changes in plan net position for the year then ended in accordance 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 pension information 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.

Rehmann Johnson LLC

BASIC FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Statement of Plan Net Position

June 30, 2014

Assets

| | |
|----------------------------------|--------------------|
| Cash and cash equivalents | \$ 5,226,232 |
| Investments: | |
| U.S. treasuries | 9,170,824 |
| U.S. agencies | 16,504,694 |
| Domestic corporate securities | 33,871,406 |
| Domestic equities | 22,972,818 |
| American depository receipts | 13,314,182 |
| International equities | 32,145,125 |
| Real estate trusts | 310,303 |
| Total investments | <u>128,289,352</u> |
| Interest receivable | 423,082 |
| Pension contributions receivable | <u>89,718</u> |
| Total assets | 134,028,384 |

Liabilities

| | |
|---|------------------------------|
| Obligation for impaired investment of securities lending collateral | <u>131,239</u> |
| Net position held in trust for pension benefits | <u><u>\$ 133,897,145</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Statement of Changes in Plan Net Position

For the Year Ended June 30, 2014

Additions

Investment income:

From investing activities:

| | |
|---|-------------------|
| Net appreciation in fair value of investments | \$ 14,984,100 |
| Interest and dividends | 2,727,504 |
| Less investment expenses | (453,794) |
| Net income from investing activities | <u>17,257,810</u> |

From securities lending activities:

| | |
|---|---------------|
| Gross earnings | 1,760 |
| Borrower rebates | 17,654 |
| Securities lending fees | (5,821) |
| Impaired investment recovery | 25,093 |
| Net gain from securities lending activities | <u>38,686</u> |

| | |
|-----------------------------|-------------------|
| Total net investment income | <u>17,296,496</u> |
|-----------------------------|-------------------|

Contributions:

| | |
|---------------------|------------------|
| Employer | 4,316,203 |
| Employees | 991,792 |
| Total contributions | <u>5,307,995</u> |

| | |
|-----------------|-------------------|
| Total additions | <u>22,604,491</u> |
|-----------------|-------------------|

Deductions

| | |
|----------------------------|------------------|
| Pension benefit payments | 8,389,950 |
| Medical insurance premiums | 512,795 |
| Contribution refunds | 47,356 |
| Administrative expenses | 197,492 |
| | <u>9,147,593</u> |

| | |
|------------------|------------------|
| Total deductions | <u>9,147,593</u> |
|------------------|------------------|

| | |
|---|------------|
| Net change to net position held in trust for benefits | 13,456,898 |
|---|------------|

| | |
|--|--------------------|
| Net position held in trust for benefits, beginning of year | <u>120,440,247</u> |
|--|--------------------|

| | |
|--|------------------------------|
| Net position held in trust for benefits, end of year | <u><u>\$ 133,897,145</u></u> |
|--|------------------------------|

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN

POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

1. PLAN DESCRIPTION

Plan administration. The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit contributory pension plan which provides retirement, disability and death benefits to, and contributes toward postemployment healthcare benefits for, plan members and their beneficiaries in accordance with the City of Battle Creek’s (the “City”) pension ordinance. The System covers all police and fire employees of the City of Battle Creek. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Retirement Board and City of Battle Creek City Commission. The financial statements of the System are included as a pension trust fund in the City’s financial statements.

The System is administered by the Board of Trustees of the City of Battle Creek, Michigan Police and Fire Retirement System. The five-member board is either elected or appointed in accordance with Public Act 345 of 1937 (“the Act”). Two members are appointed by the City Commission upon completing an application to serve. One member is an active member of the retirement system and elected by a majority vote of the active members of the police department. One member is an active member of the retirement system and elected by a majority vote of the active members of the fire department. The treasurer of the City is a member per the Act. All terms are four years.

Plan membership. System membership consisted of the following at June 30, 2013, the date of the latest actuarial valuation:

| | |
|---|--------------------------|
| Retirees and beneficiaries currently receiving benefits | 248 |
| Terminated employees entitled to but not yet receiving benefits | 9 |
| Vested and non-vested active participants | <u>177</u> |
| Total | <u><u>434</u></u> |

Benefits provided. The System provides retirement, disability, and death benefits. Retirement benefits for police and fire members are generally calculated as 3.0% times 80% of the member’s final three or five-year average salary (depending on the group) times the member’s years of service up to a maximum of 25 years, plus an additional 1.0% of the same 80% of final average compensation times the number of years of service in excess of 25 years. Members with 25 years of service or who are age 60 are eligible to retire and receive benefits.

Contributions. Plan members are required to contribute between 7.5% and 10.0% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution for the year ended June 30, 2014 represented 30.12% of the annual covered payroll.

CITY OF BATTLE CREEK, MICHIGAN

POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

2. 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 and Income Recognition

The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages, if any, are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, if any, is based on independent appraisals. Investments that do not have established market values are reported at fair value as determined by the custodian, with the assistance of a valuation service.

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

Administration

Administrative costs are financed through the System's investment earnings.

3. DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Deposits

The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net position is composed entirely of short-term investments in money market accounts.

Investments

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 Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

Investment allocation policy. The System's policy in regard to the allocation of invested assets is established and may be amended by its Board of Trustees. Based on a long-term time horizon and the Board's risk tolerance, performance expectations and asset class (and subclass) preferences, the strategic asset allocation is 50/50 split between fixed income and equity investments with no more than 20% allowed in alternative assets classes such as hedges, private equity funds, real estate, commodities and structured notes.

Investment holdings. The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments (at fair value as determined by quoted market price) as of June 30, 2014:

| | |
|-------------------------------|----------------------------------|
| U.S. treasuries | \$ 9,170,824 |
| U.S. agencies | 16,504,694 |
| Domestic corporate securities | 33,871,406 |
| Domestic equities: | |
| Not on securities loan | 21,673,674 |
| On securities loan | 1,299,144 |
| American depository receipts | 13,314,182 |
| International equities | 32,145,125 |
| Real estate investment trusts | <u>310,303</u> |
| Total investments | <u><u>\$ 128,289,352</u></u> |

In addition to the above, the System has short-term investments of \$5,226,232 as of June 30, 2014 held entirely in money market funds and reported as cash and cash equivalents.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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 investment 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 subject to custodial credit risk.

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2014, the System's investments in securities of U.S. agencies were not rated by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

| | |
|-----------|-----------------------------|
| AAA | \$ 4,291,058 |
| AA | 3,738,724 |
| A | 7,179,556 |
| BBB | 7,948,547 |
| Not rated | <u>10,713,521</u> |
| | <u><u>\$ 33,871,406</u></u> |

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

Concentration of Credit Risk. The System's investments are not exposed to concentration of credit risk relative to a single issuer (i.e. company or government agency) inasmuch as no holdings equal or exceed 5% or more of total investments. The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

Interest Rate Risk. As of June 30, 2014, maturities of the System's debt securities (none of which were callable) were as follows:

| | Investment Maturities (fair value by years) | | | | |
|-------------------------------|---|-------------------|----------------------|----------------------|----------------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. treasuries | \$ 9,170,824 | \$ - | \$ 2,686,026 | \$ 3,638,727 | \$ 2,846,071 |
| U.S. agencies | 16,504,694 | 758 | 749,507 | 3,200,957 | 12,553,472 |
| Domestic corporate securities | 33,871,406 | 572,389 | 8,034,237 | 9,097,752 | 16,167,028 |
| Total debt securities | \$ 59,546,924 | \$ 573,147 | \$ 11,469,770 | \$ 15,937,436 | \$ 31,566,571 |

The System's investment policy does not place limits on the maximum maturity for any single fixed income security or the weighted average for the portfolio maturity or a particular segment thereof. At June 30, 2014, the actual weighted average maturity was 16.5 years.

Foreign Currency Risk. Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The System has various investment holdings in international equities of \$32,145,125 and American depository receipts of \$13,314,182; these holdings are primarily in common and preferred stocks of Canadian (dollars) and European (euros) companies along with various other global companies. The System does not have any policies regarding foreign currency risk.

Rate of return. For the years ended June 30, 2014, the annual money-weighted rate of return on plan investments, net of investment expenses, was 14.76 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Securities Lending. A contract approved by the System's Board permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair 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. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent.

At year-end, the System has no credit risk exposure to borrowers as the amounts the System owes the borrowers exceed 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.

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

Notes to Financial Statements

Also at year-end, through a cash collateral investing program provided by the custodial bank, the System has an obligation to repay \$131,239 of cash collateral that was invested in a Sigma Finance Medium Term Note, which is impaired. Any current or future recoveries from Sigma Finance are not expected.

4. ANNUAL REQUIRED CONTRIBUTION (under GASB Statement 25)

The City’s annual required contribution for the year ended June 30, 2014, was \$3,803,408 for pension benefits and \$512,795 for postemployment healthcare benefits. By agreement, effective July 1, 2007, the System is obligated to pay only \$512,795 annually for retiree healthcare and this amount will be provided annually by a City contribution to the System. The City made these required contributions totaling \$4,316,203 and has no retirement benefit obligation.

| Three Year Trend Information (pension only) | | | |
|---|---------------------|------------------------|------------------------|
| Year Ended | Annual Pension Cost | Percentage Contributed | Net Pension Obligation |
| 6/30/2012 | \$ 3,659,617 | 100% | - |
| 6/30/2013 | 4,105,429 | 100% | - |
| 6/30/2014 | 4,316,203 | 100% | - |

5. FUNDED STATUS AND FUNDING PROGRESS (under GASB Statement 25)

The funded status of the pension portion of the System as of June 30, 2013, the date of the most recent actuarial valuation, was as follows:

| | | | |
|-----------------------------------|-----|--------------------|-----------|
| Actuarial accrued liability (AAL) | (1) | \$ 149,004,999 | |
| Actuarial value of assets | (2) | <u>117,879,023</u> | |
| Unfunded AAL (UAAL) | (3) | <u>31,125,976</u> | (1) - (2) |
| Funded ratio | (4) | <u>79.1%</u> | (2) / (1) |
| Covered payroll | (5) | <u>11,700,630</u> | |
| UAAL as % of covered payroll | (6) | <u>266.0%</u> | (3) / (5) |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

CITY OF BATTLE CREEK, MICHIGAN

POLICE AND FIRE RETIREMENT SYSTEM

Notes to Financial Statements

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation includes:

| | |
|-------------------------------|--|
| Valuation date | June 30, 2013 |
| Actuarial cost method | Entry-age |
| Amortization method | Level percent-of-payroll |
| Remaining amortization period | 30 year open |
| Asset valuation method | 5-year smoothed market w/ 20% corridor |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | 4.5% to 12.9% |
| Assume rate of payroll growth | 4.5% |
| Cost-of-living adjustments | None |
| Inflation rate | 3.0% to 4.0% |

6. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Battle Creek's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss limits. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

7. NET PENSION LIABILITY OF THE CITY (under GASB Statement 67)

The components of the net pension liability of the City at June 30, 2014, are as follows:

| | |
|---|----------------------|
| Total pension liability | \$ 153,438,134 |
| Plan fiduciary net position | (133,897,145) |
| City's net pension liability | <u>\$ 19,540,989</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 87.26% |

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

Notes to Financial Statements

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013 (and rolled forward to June 30, 2014, the measurement date), using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 4.5 percent |
| Salary increases | 4.5 to 12.9 percent, including inflation |
| Investment rate of return | 7.0 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP 2000 Male Combined Healthy Table projected to 2010 using the projection scale AA.

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. 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, 2014 (see the discussion of the System’s investment allocation policy) are summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return |
|-------------------------------|--|
| U.S. treasuries | 0.75% |
| U.S. agencies | 0.75% |
| Domestic corporate securities | 5.25% |
| Domestic equities | 5.60% |
| American depository receipts | 0.75% |
| International equities | 5.25% |
| Real estate investment trusts | 0.75% |

Discount rate. The discount rate used to measure the total pension liability was 7.0 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 BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

Notes to Financial Statements

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.0 percent, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

| | 1% Decrease (6.0%) | Current Discount (7.0%) | 1% Increase (8.0%) |
|------------------------------|--------------------------|-------------------------------|--------------------------|
| City's net pension liability | \$ 37,479,769 | \$ 19,540,989 | \$ 4,468,898 |



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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Required Supplementary Information

| Schedule of Funding Progress - Pension Only | | | | | | |
|---|-------------------------------|---------------------------------------|---|--------------------|-----------------|-------------------------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) (B) | (Over) Under Funded AAL (OAAL/UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll | OAAL/UAAL as a % of Covered Payroll |
| 6/30/2004 | \$ 103,745,735 | \$ 104,336,169 | \$ 590,434 | 99.4% | \$ 12,114,360 | 4.9% |
| 6/30/2005 | 102,755,663 | 110,487,311 | 7,731,648 | 93.0% | 12,085,192 | 64.0% |
| 6/30/2006 | 103,283,413 | 114,501,359 | 11,217,946 | 90.2% | 12,283,787 | 91.3% |
| 6/30/2007 | 108,245,308 | 121,823,413 | 13,578,105 | 88.9% | 12,358,265 | 109.9% |
| 6/30/2008 | 113,285,618 | 126,752,205 | 13,466,587 | 89.4% | 12,497,433 | 107.8% |
| 6/30/2009 | 112,094,168 | 133,052,817 | 20,958,649 | 84.2% | 11,953,735 | 175.3% |
| 6/30/2010 | 112,804,385 | 137,557,259 | 24,752,874 | 82.0% | 12,383,339 | 199.9% |
| 6/30/2011 | 115,774,764 | 140,863,694 | 25,088,930 | 82.2% | 12,609,794 | 199.0% |
| 6/30/2012 | 115,083,128 | 145,540,987 | 30,457,859 | 79.1% | 12,269,834 | 248.2% |
| 6/30/2013 | 117,879,023 | 149,004,999 | 31,125,976 | 79.1% | 11,700,630 | 266.0% |

Schedule of Employer Contributions - Pension Only

| Year Ended June 30 | Annual Required Contributions | Percentage Contributed |
|--------------------|-------------------------------|------------------------|
| 2005 | \$ 1,824,879 | 100% |
| 2006 | 2,458,298 | 100% |
| 2007 | 2,877,942 | 100% |
| 2008 | 3,117,333 | 100% |
| 2009 | 3,408,722 | 100% |
| 2010 | 3,122,270 | 100% |
| 2011 | 3,846,195 | 100% |
| 2012 | 3,659,617 | 100% |
| 2013 | 4,105,429 | 100% |
| 2014 | 4,316,203 | 100% |

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Fiscal Year

| | 2014 |
|---|----------------------|
| Total pension liability | |
| Service cost | \$ 3,152,919 |
| Interest on total pension liability | 10,227,546 |
| Benefit changes | - |
| Difference between expected and actual experience | - |
| Assumption changes | - |
| Benefit payments | (8,947,330) |
| Refunds | - |
| Net change in total pension liability | <u>4,433,135</u> |
| Total pension liability, beginning of year | <u>149,004,999</u> |
| Total pension liability, end of year | <u>153,438,134</u> |
| Plan fiduciary net position | |
| Employer contributions | 4,316,203 |
| Employee contributions | 991,792 |
| Pension plan net investment income | 17,296,496 |
| Benefit payments and refunds | (8,437,306) |
| Pension plan administrative expense | (197,492) |
| Other | (512,795) |
| Net change in plan fiduciary net position | <u>13,456,898</u> |
| Plan fiduciary net position, beginning of year | <u>120,440,247</u> |
| Plan fiduciary net position, end of year | <u>133,897,145</u> |
| Net pension liability | <u>\$ 19,540,989</u> |
| Plan fiduciary net position as a percentage of total pension liability | 87.26% |
| Covered employee payroll | <u>\$ 11,700,630</u> |
| Net pension liability as a percentage of covered employee payroll | 167.01% |

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

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Investment Returns
Last Two Fiscal Years

| Fiscal Year Ended | Annual Return ⁽¹⁾ |
|-------------------|------------------------------|
| 6/30/2013 | 12.69% |
| 6/30/2014 | 14.01% |

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses

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

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of City Contributions

Last Fiscal Year

| 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 | \$ 4,316,203 | \$ 4,316,203 | \$ - | \$12,656,141 | 34.10% |

Notes to Schedule of Contributions

| | |
|-------------------|--|
| Valuation date | June 30, 2013 (rolled forward to June 30, 2014, the measurement date) |
| Notes | 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 changes in benefit provisions or actuarial assumptions as of the actuarial valuation date. |

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | Closed 30 years for initial unfunded liability Closed 24-26 years for benefit changes in 2007-2009 Closed 26 years for method/assumption changes in 2009 |
| Asset valuation method | 5-year smoothed market |
| Inflation | 4.5% |
| Salary increases | 4.5%-12.9% including inflation |
| Investment rate of return | 7.0% net of pension plan investment expense, including inflation |
| Mortality rates | RP-2000 Mortality Table |

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