

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

COMPONENT UNIT FINANCIAL REPORT

June 30, 2012

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal

Kevin C. Pascoe, CPA

INDEPENDENT AUDITOR'S REPORT

Retirement Board
Escanaba Public Safety Pension Fund
Escanaba, Michigan

We have audited the accompanying component unit financial statements of the Escanaba Public Safety Pension Fund (a Fiduciary Fund of the City of Escanaba) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Escanaba Public Safety Pension Fund as of June 30, 2012 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statement does not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Anderson, Tackman & Company P.C.

Certified Public Accountants

October 1, 2012

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

STATEMENT OF PLAN NET ASSETS

June 30, 2012

ASSETS

Cash	\$ 11,023
Investments:	
Mutual funds at market value:	
Eaton Vance Income Fund of Boston	2,088,468
Vanguard Small-Cap Growth Index Fund	2,115,903
Vanguard 500 Index Fund	4,823,770
Vanguard Total Bond Market Index Fund	5,164,557
JP Morgan Mid-Cap Value Fund	4,581,173
Dimensional International Value Portfolio	<u>1,018,594</u>
 TOTAL PLAN ASSETS	 <u>\$19,803,488</u>

LIABILITIES AND NET ASSETS

PLAN LIABILITIES:	
Accounts payable	<u>\$ 8,265</u>
 TOTAL PLAN LIABILITIES	 <u>8,265</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (See Note 4):	
Reserved for:	
Members deposit account	1,401,135
Pension reserve account	2,571,562
Retirement reserve account	<u>15,822,526</u>
 TOTAL PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 <u>19,795,223</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$19,803,488</u>

See accompanying notes to financial statements.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN PLAN NET ASSETS

For the year ended June 30, 2012

OPERATING REVENUES:	
Member contributions	\$ 121,726
Employer contributions	844,170
Interest income	1,259
Dividend income	506,395
Net realized/unrealized gain on investments	<u>197,127</u>
 TOTAL OPERATING REVENUES	 <u>1,670,677</u>
 OPERATING EXPENSES:	
Pension payments to retired employees	1,462,201
Trustee and transaction fees	<u>11,908</u>
 TOTAL OPERATING EXPENSES	 <u>1,474,109</u>
 NET INCREASE IN PLAN NET ASSETS	 196,568
 Plan net assets, beginning of year	 <u>19,598,655</u>
 PLAN NET ASSETS, END OF YEAR	 <u>\$19,795,223</u>

See accompanying notes to financial statements.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the year ended June 30, 2012

	<u>Members Deposit Account</u>	<u>Pension Reserve Account</u>	<u>Retirement Reserve Account</u>	<u>Total</u>
Balance, beginning of year	\$1,321,485	\$ 2,787,366	\$15,489,804	\$19,598,655
Add:				
Employee contributions	121,726	-	-	121,726
Employer contributions	-	844,170	-	844,170
Interest and dividends on investments	27,473	(703,297)	1,183,478	507,654
Net realized/unrealized gain on investments	-	197,127	-	197,127
Transfers received by retirement reserve	-	-	611,445	611,445
	<u>149,199</u>	<u>338,000</u>	<u>1,794,923</u>	<u>2,282,122</u>
Deduct:				
Pension payments to retired employees	-	-	1,462,201	1,462,201
Investment expenses	-	11,908	-	11,908
Net realized/unrealized loss on investments	-	-	-	-
Transfers paid to retirement reserve	69,549	541,896	-	611,445
	<u>69,549</u>	<u>553,804</u>	<u>1,462,201</u>	<u>2,085,554</u>
 BALANCE, END OF YEAR	 <u>\$1,401,135</u>	 <u>\$ 2,571,562</u>	 <u>\$15,822,526</u>	 <u>\$19,795,223</u>

See accompanying notes to financial statements.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity - The Escanaba Public Safety Pension Fund was established to provide a funding mechanism for the accumulation and payment of monies for retired public safety officers. The Escanaba Public Safety Pension Fund is a component unit of the City of Escanaba and, as such, is also reported within the City of Escanaba's Comprehensive Annual Financial Report.

(b) Basis of Accounting - Escanaba Public Safety Pension Fund financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

(c) Valuation of Investments - All securities are reported at market value. Fair market value was determined using the current stock and bond indexes, as appropriate.

(d) Investment Income - Dividend income is recognized based on dividends received and interest income is recognized on the accrual basis as earned. Gains or losses on actual sales of securities are recognized using the completed transaction method. Unrealized gains and losses are recognized throughout the year by adjusting investments to market value.

(e) Plan Administration - Costs of plan administration are financed by the City of Escanaba.

(f) Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

NOTE 2 - PLAN DESCRIPTION

The Escanaba Public Safety Pension Fund is a single employer public employee retirement system established and administered by the City of Escanaba, Michigan to provide pension benefits for all of its public safety officers. The Pension Fund is part of the City of Escanaba's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a Pension Trust Fund. At June 30, 2011, the date of the most recent actuarial

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - PLAN DESCRIPTION (continued)

valuation, membership in the Pension Fund consisted of 31 current employees, 58 retirees and beneficiaries currently receiving benefits, and 1 terminated plan member entitled to but not yet receiving benefits.

The Escanaba Public Safety Pension Fund provides retirement benefits as well as death and disability benefits. Employees who retire at any age with 25 or more years of service or age 60 regardless of service are entitled to an annual retirement benefit, payable for life, in an amount equal to 3.0 percent of their three-year average final compensation (AFC) multiplied by their first 25 years of service. The maximum benefit is 75% of AFC. A deferred retirement is earned by an employee who terminates before retirement age and has 10 or more years of service. The minimum retiree pension amount is \$500 per month. This minimum is also applicable to surviving spouses. The annual retirement benefit payable to a qualifying retiree is increased by 1.0% (1.5% for those retirees and beneficiaries retiring after July 1, 2002) per year, compounded annually.

Covered employees are required to contribute 6 percent of their compensation to the Plan if the City's contribution rate is above 6.83%. If the City's contribution rate decreases below 6.83% the members are required to contribute 5.0% to the plan. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related interest earnings, calculated at two percent annually, are refunded to the employee or designated beneficiary. Contributions by the City of Escanaba are actuarially determined and based on the individual entry age method.

NOTE 3 - CASH AND INVESTMENTS

The cash and investments of the PSO face certain risks, as described below:

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The PSO's investments are in mutual fund investment pools which are not subject to interest rate risk disclosure.

Credit Risk - State law limits the investment in commercial paper to the top two ratings issued by nationally recognized rating organizations. The PSO's investments are with mutual fund investments pools, which are not rated.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (continued)

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the PSO will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The PSO does not have a policy for custodial credit risk. The PSO's pooled investment accounts are in mutual fund investment pools, which is evidenced by shares in the pool, not by securities that exist in physical or book-entry form.

Concentration of Credit Risk - The PSO's investment policy prohibits any one security exceeding five percent of an overall fund. No investment exceeded this threshold during the fiscal year. Additionally, no one industry can represent more than twenty percent of an individual fund. No industry represented more than twenty percent of an individual fund during the fiscal year. The governing board has also placed a 65% ceiling on equities as a proportion of total investments. This threshold was not exceeded during the fiscal year.

The insurability of the PSO's cash balance of \$11,023 was determined at the City reporting level, and is included in the City's Comprehensive Annual Financial Report.

NOTE 4 - ACTUARIAL INFORMATION

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2011. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 7.5%, (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation and (c) additional salary increases of 0.0% to 4.0% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the June 30, 2011 actuarial valuation to determine the annual employer contribution amounts. The individual entry-age actuarial cost method was used to determine the entries at disclosure.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 - ACTUARIAL INFORMATION (continued)

GASB 25 INFORMATION

Actuarial Accrued Liability:	
Retirants and beneficiaries	\$15,826,299
Vested terminated members	194,960
Active members	<u>10,686,271</u>
Total actuarial accrued liability	26,707,530
Actuarial value of assets (market value)	<u>18,419,861</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 8,287,669</u>

GASB 27 INFORMATION

Contributions Required and Contributions Made - The funding policy of the plan 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. The normal cost and amortization payment for the fiscal year ended June 30, 2011 were determined using the individual entry-age actuarial cost method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of thirty years. The following table provides a schedule of contribution amounts and percentages for the past six years.

<u>Year ended</u> <u>June 30</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2006	\$ 465,237	100
2007	489,661	100
2008	542,028	100
2009	573,788	100
2010	601,037	100
2011	807,281	100

The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year. These amounts are determined by

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 - ACTUARIAL INFORMATION (continued)

applying the computed employer percent of payroll contribution rate to the actual pay during the fiscal year.

The employer portion of the contribution for the fiscal year ending June 30, 2012 was calculated at 41.61% of the valuation payroll. This calculates out to \$844,170.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>[(b-a)/c] UAL as a Percentage of Covered Payroll</u>
6/30/06	\$18,635,314	\$20,681,115	\$ 2,045,801	90	\$ 1,835,787	111
6/30/06*	18,635,314	20,634,472	1,999,158	90	1,835,787	109
6/30/07	19,686,269	21,845,071	2,158,802	90	1,799,708	120
6/30/08	20,322,502	22,861,045	2,538,543	89	1,885,535	135
6/30/09	17,934,203	23,803,284	5,869,081	75	1,946,469	302
6/30/10	17,831,177	24,631,990	6,800,813	72	1,926,918	353
6/30/11	18,419,861	25,428,343	7,008,482	72	2,012,773	348
6/30/11*	18,419,861	26,707,530	8,287,669	69	2,012,773	412

* After changes in benefit provisions.

NOTE 5 - RESERVE OF NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Members deposit account - Reserves for member deposits are to account for employee contributions to the plan prior to retirement. Reserves for member deposits amount to \$1,401,135 as of June 30, 2012.

NOTE 6 - DEFERRED RETIREMENT OPTION PLAN

DROP Accounts - All individual DROP accounts shall be maintained for the benefit of each DROP participant and will be managed by the Retirement Board in the same manner as the primary pension fund. Interest will be credited to each participant's DROP account on January 1st of each year. Interest will be credited at a rate of 4% on a participant's average daily account balance over the prior year. The Retirement Board shall provide each DROP participant with an annual statement of their account activity.

ESCANABA PUBLIC SAFETY PENSION FUND
CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 - DEFERRED RETIREMENT OPTION PLAN (continued)

Distribution of DROP Funds - Upon termination of employment, the former DROP participant must choose from the following distribution methods to receive payment(s) from their individual DROP account.

1. A total lump sum distribution to the recipient.
2. A partial lump sum distribution to the recipient with all remaining funds directly rolled over into another qualified plan to the extent allowed by federal law and in accordance with the Retirement Board's rollover procedures.
3. A total rollover into a qualified plan as allowed by applicable law.
4. Other distribution options as may be approved by the Retirement Board in accordance with applicable law.

As of June 30, 2012 there were no participants in the DROP program. The City's estimated liability for the program was \$0 for the year ended June 30, 2012.

