

**City of Grand Rapids  
General Retirement System**

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**Financial Report  
with Supplemental Information  
June 30, 2011**

# **City of Grand Rapids General Retirement System**

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## Independent Auditor's Report

To the Board of Trustees  
City of Grand Rapids General  
Retirement System

We have audited the accompanying statement of plan net assets of the City of Grand Rapids General Retirement System (the "System") as of June 30, 2011 and 2010 and the related statement of changes in plan net assets. These financial statements are the responsibility of the System's management. 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Rapids General Retirement System as of June 30, 2011 and 2010 and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

Grand Rapids, Michigan  
January 17, 2012

# City of Grand Rapids General Retirement System

## Management's Discussion and Analysis

This section of the City of Grand Rapids General Retirement System's (the "System") annual financial statements presents a discussion and analysis of the financial performance of the System for the fiscal year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements. This discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. The financial statements and this discussion are the responsibility of management.

### Overall Fund Structure and Objectives

The System exists to pay benefits to its retirees and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Generally speaking, benefits paid out in any given year are significantly greater than the contributions received. The excess of benefits over contributions must be funded through investment income.

### Asset Allocation

The System has established asset allocation policies, which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to its members. The following is a summary of the System's asset allocation policy as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
U.S. equity	45%	45%
Fixed income	30%	30%
Non-U.S. equity	15%	15%
Real estate	5%	5%
Private markets	5%	5%

### Investment Results

The System's performance consultant, Wilshire Associates, reported a market rate of return of 25.61% and 19.41% on retirement system assets for the years ended June 30, 2011 and 2010, respectively. Had the assets all been invested passively, the return would have been 22.90% and 13.87%, which means that the System's assets outperformed their benchmark by 2.71% and 5.54% for the years ended June 30, 2011 and 2010, respectively.

Management believes, and actuarial studies concur, that the System is in a solid financial position to meet its current obligations. We believe that the current financial position will continue to improve due to a prudent investment program, cost controls, and strategic planning.

# City of Grand Rapids General Retirement System

## Management's Discussion and Analysis (Continued)

### Using the Financial Statements

The System's financial report includes two financial statements: the statement of plan net assets and the statement of changes in plan net assets. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenue and expenses are taken into account regardless of when cash is received or paid.

The statement of plan net assets presents all of the System's assets and liabilities with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The statement of changes in plan net assets presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the schedule of funding progress and the schedule of employer contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

### Statement of Plan Net Assets

The following table shows, in a condensed format, the current year's plan net assets, compared to the prior two years:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	Change from Prior Year	
				In Dollars	As %
<b>Assets:</b>					
Cash and money market funds	\$ 4,415,733	\$ 4,136,664	\$ 4,664,425	\$ 527,761	12.8%
Stocks, equity mutual funds, and partnerships	172,985,399	188,748,003	239,384,735	50,636,732	26.8%
Fixed income	80,575,318	91,696,372	94,496,154	2,799,782	3.1%
Real estate	7,066,286	15,329,399	19,312,415	3,983,016	26.0%
Private equity partnerships	-	227,000	630,220	403,220	177.6%
Securities lending collateral	10,343,058	20,754,493	16,814,451	(3,940,042)	-19.0%
Securities lending deficiency	(285,728)	-	-	-	0.0%
<b>Total cash and investments</b>	<b>275,100,066</b>	<b>320,891,931</b>	<b>375,302,400</b>	<b>54,410,469</b>	<b>17.0%</b>
Receivables	2,363,343	1,031,686	1,059,700	28,014	2.7%
<b>Total assets</b>	<b>277,463,409</b>	<b>321,923,617</b>	<b>376,362,100</b>	<b>54,438,483</b>	<b>16.9%</b>
<b>Liabilities:</b>					
Administrative expenses and investment management fees payable	279,717	350,280	337,590	(12,690)	-3.6%
Pending trades - Purchases	1,448,369	67,680	180,139	112,459	166.2%
Amounts due broker under securities lending agreement	10,343,058	20,748,327	16,814,451	(3,933,876)	-19.0%
<b>Total liabilities</b>	<b>12,071,144</b>	<b>21,166,287</b>	<b>17,332,180</b>	<b>(3,834,107)</b>	<b>-18.1%</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 265,392,265</b>	<b>\$ 300,757,330</b>	<b>\$ 359,029,920</b>	<b>\$ 58,272,590</b>	<b>19.4%</b>

# City of Grand Rapids General Retirement System

## Management's Discussion and Analysis (Continued)

The System participates in a securities lending program. The Northern Trust Company is the exclusive agent of the System. The agent fully indemnifies the System against borrower default in compliance with state statutes. At year end, the market value of securities on loan was approximately \$16.7 million.

When a security is placed on loan, the System receives cash collateral in an amount not less than 102% of the market value of the security loaned. Loans are marked-to-market daily. Cash collateral is invested by the agent in a separately managed account. Borrowers receive a daily interest rebate on the cash collateral provided to the agent. Earnings from securities lending represent the difference, or spread, between the earnings on the cash collateral and the interest rebate paid to the borrower. Securities lending income is used to offset the System's custody and benefit payment expenses.

The market value of the collateral invested is carried as an asset and the amount of collateral repayable to the borrower upon return of the securities from loan is carried as a liability in the financial statements. The increase in assets caused by securities lending will always be offset by a corresponding liability of the same amount, so that the two amounts cancel each other out.

Because the number of securities out on loan under the System's lending program can fluctuate greatly depending on demand and available securities, the assets and liabilities can be expected to vary widely from one year to the next, or not much at all, depending on how many securities are out on loan on June 30 of each year.

### Statement of Changes in Plan Net Assets

The following table shows, in a condensed format, the changes in plan net assets compared to the prior two years:

	2009	2010	2011	Change from Prior Year	
				In Dollars	As %
<b>Additions:</b>					
Contributions	\$ 6,190,502	\$ 7,526,013	\$ 8,646,574	\$ 1,120,561	14.9%
Net investment (loss) income	(73,354,061)	51,191,915	75,838,098	24,646,183	48.1%
Securities lending	121,318	47,830	37,911	(9,919)	-20.7%
<b>Total additions</b>	<b>(67,042,241)</b>	<b>58,765,758</b>	<b>84,522,583</b>	<b>25,756,825</b>	<b>43.8%</b>
<b>Deductions:</b>					
Benefits	21,370,865	22,882,503	25,683,998	2,801,495	12.2%
Administrative expense	519,413	518,190	565,995	47,805	9.2%
<b>Total deductions</b>	<b>21,890,278</b>	<b>23,400,693</b>	<b>26,249,993</b>	<b>2,849,300</b>	<b>12.2%</b>
<b>Net (decrease) increase</b>	<b>(88,932,519)</b>	<b>35,365,065</b>	<b>58,272,590</b>	<b>22,907,525</b>	<b>64.8%</b>
<b>Net assets held in trust for pension benefits:</b>					
Beginning of year	354,324,784	265,392,265	300,757,330	35,365,065	13.3%
<b>End of year</b>	<b>\$ 265,392,265</b>	<b>\$ 300,757,330</b>	<b>\$ 359,029,920</b>	<b>\$ 58,272,590</b>	<b>19.4%</b>

# **City of Grand Rapids General Retirement System**

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## **Management's Discussion and Analysis (Continued)**

### **Other System Activities**

The System began investing in private equity in 2010, when an initial commitment of \$5 million was made with Adams Street Partners. Of the initial commitment, approximately \$4.4 million is outstanding at June 30, 2011. The board voted to commit \$5 million with FLAG Capital Management in April, with funding expected to occur over the next few years. The assets previously invested in a separately managed international equity account by Neuberger Berman were transitioned to an international equity institutional mutual fund, managed by Neuberger Berman, in late March.

### **Contacting System Financial Management**

This financial report is designed to provide the board of trustees, our membership, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Retirement Systems office, 233 E. Fulton, Suite 216, Grand Rapids, Michigan 49503.

# City of Grand Rapids General Retirement System

## Statement of Plan Net Assets June 30, 2011 (with comparative totals for June 30, 2010)

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and investments:		
Cash and money market funds	\$ 4,664,425	\$ 4,136,664
United States government obligations	21,666,903	19,818,988
State and municipal bonds	81,199	82,933
Corporate bonds and fixed-income commingled funds	61,724,425	58,875,391
Common stocks and equity mutual funds	239,384,735	188,748,003
Real estate	19,312,415	15,329,399
Asset-backed securities	11,023,627	12,919,060
Private equity	630,220	227,000
Investments held as collateral for securities lending - Core U.S.A. Fund	<u>16,814,451</u>	<u>20,754,493</u>
Total cash and investments	375,302,400	320,891,931
Receivables:		
Plan member contributions	142,386	103,799
Employer contributions	292,015	220,915
Interest and dividends	<u>625,299</u>	<u>706,972</u>
Total receivables	<u>1,059,700</u>	<u>1,031,686</u>
Total assets	376,362,100	321,923,617
<b>Liabilities</b>		
Administrative expenses payable	74,647	74,833
Investment management fees payable	262,943	275,447
Pending trades - Purchases	180,139	67,680
Amounts due broker under securities lending agreement	<u>16,814,451</u>	<u>20,748,327</u>
Total liabilities	<u>17,332,180</u>	<u>21,166,287</u>
<b>Net Assets Held in Trust for Pension Benefits</b>		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 359,029,920</u>	<u>\$ 300,757,330</u>



# City of Grand Rapids General Retirement System

## Statement of Changes in Plan Net Assets Year Ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
<b>Additions to Net Assets</b>		
Contributions:		
Plan members	\$ 2,484,211	\$ 2,817,993
Employer	6,162,363	4,708,020
Total contributions	<u>8,646,574</u>	<u>7,526,013</u>
Investment income:		
Interest and dividends	4,192,812	4,516,804
Net appreciation in fair value of investments	72,752,554	47,748,116
Net investment income	<u>76,945,366</u>	<u>52,264,920</u>
Less investment expenses	<u>(1,107,268)</u>	<u>(1,073,005)</u>
Net investment income	75,838,098	51,191,915
Securities lending:		
Income	58,303	69,740
Expense	<u>(20,392)</u>	<u>(21,910)</u>
Net securities lending income	<u>37,911</u>	<u>47,830</u>
Total additions - Net	84,522,583	58,765,758
<b>Deductions from Net Assets</b>		
Benefits	25,683,998	22,882,503
Administrative expenses	565,995	518,190
Total deductions	<u>26,249,993</u>	<u>23,400,693</u>
<b>Net Increase in Net Assets Held in Trust for Pension Benefits</b>	58,272,590	35,365,065
<b>Net Assets Held in Trust for Pension Benefits</b>		
Beginning of year	<u>300,757,330</u>	<u>265,392,265</u>
End of year	<u><b>\$ 359,029,920</b></u>	<u><b>\$ 300,757,330</b></u>

# **City of Grand Rapids General Retirement System**

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## **Notes to Financial Statements June 30, 2011 and 2010**

### **Note I - Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The City of Grand Rapids General Retirement System's (the "System") financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due according to the formal commitment made by the City of Grand Rapids, Michigan (the "City") to provide the contributions. Plan member contributions are recognized when due. Benefits and refunds are recognized when due and are payable in accordance with the terms of the plan.

#### **Methods Used to Value Investments**

Investments are reported 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. Investments that do not have an established market are reported at estimated fair value.

#### **Use of Estimates**

The preparation of the System's financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements. Significant estimates are made for the actuarial present value of accumulated plan benefits as of the benefit information date, the changes in net assets available for benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

#### **Risks and Uncertainties**

Plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in the value of investments, it is possible that changes in these estimates, assumptions, and risks in the near term could be material to the financial statements.

#### **Subsequent Events**

Subsequent to year end, the System's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Plan Description and Contribution Information

#### Plan Description

The System is a single-employer, defined benefit pension plan which provides retirement and disability benefits to plan members and beneficiaries. Eligible members consist of all persons regularly employed by the City, including the 61st District Court and Grand Rapids Public Library, but excluding uniformed police and fire employees. Benefit provisions are established and amended by City ordinance. The plan is administered by the System's board of trustees and the financial statements of the System are also included in the basic financial statements of the City as a pension trust fund. The System is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity as required by state law.

#### Eligibility

An eligible employee becomes a participant in the System as of his or her date of permanent employment. The System provides for 100% vesting in System benefits with eight years of credited service. Employees may elect to retire after attaining age 62 and completing eight years of credited service, or after completing 30 years of service regardless of age. The yearly allowance, payable monthly for life to the retired member, equals 2.7% of the member's final average compensation times years and months of credited service for all groups except those represented by the APAGR and non-represented groups. The yearly allowance payable monthly for life to the retired member equals 2.7% of the member's final average compensation for all service earned through June 11, 2011 for APAGR members and September 4, 2010 for non-represented members, and either 2.7%, 2.5%, or 2.2% of the member's final average compensation for future service from and after June 12, 2011 for APAGR members and September 5, 2010 for non-represented members. For members of the crime scene technicians group, final average compensation shall be increased by 6.2% and for members of the ECO I, II & III group, final average compensation shall be increased by 46.5%. For purposes of benefit calculations, the final average compensation is based on the member's three highest compensated calendar years of credited service, before the year end of the calendar year in which the employee attains 40 years of credited service or reaches his or her credited service cap.

At June 30, 2010, the System's membership consisted of the following:

Retirees and beneficiaries receiving pension benefits	1,021
Terminated plan members entitled to but not yet receiving benefits	87
Active plan members	919
Total	<u>2,027</u>

# **City of Grand Rapids General Retirement System**

## **Notes to Financial Statements June 30, 2011 and 2010**

### **Note 2 - Plan Description and Contribution Information (Continued)**

#### **Contributions**

The City is required to contribute at an actuarially determined rate, calculated to be 13.12% and 9.29% for the years ended June 30, 2011 and 2010, respectively. Plan member contributions, which are required by ordinance, are based on compensation. Contributions are 2% to 10.2% of regular compensation paid by the City, depending on the bargaining unit. These contributions are 100% vested. Plan members retain the right upon termination to withdraw their contributions plus regular interest, as defined by City Code, in lieu of any pension rights they may have.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest upon request by a terminated plan member. The balance in the member deposit fund at June 30, 2011 and 2010 is \$26,453,041 and \$25,593,223, respectively.

#### **Annual Pension Costs**

The annual employer contribution for the year ended June 30, 2011 and 2010 was \$6,162,363 and \$4,708,020, respectively. The annual contribution was determined by the actuarial valuation at June 30, 2010 and 2009 using the individual entry age cost method. Significant actuarial assumptions include: (a) 7.34% investment rate of return (7.50% for groups receiving annual post-retirement increases; 7.25% for groups participating in the 13th Check program) and (b) additional salary increases of 4.00% - 8.00% per year, due to inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period and include an inflation component of 3.50%. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 28 years.

#### **Funded Status and Funding Progress**

As of June 30, 2010 and 2009, the most recent actuarial valuation dates, the plan was 84% and 97% funded on an actuarial basis, respectively. The actuarial accrued liability for benefits was \$435,893,490 and \$391,339,300, respectively, and the actuarial value of the assets was \$366,543,009 and \$381,136,182, respectively, resulting in an underfunding of \$69,350,481 and \$10,203,118, respectively. The covered payroll (annual payroll for active employees covered by the Plan) was \$49,336,606 and \$51,808,141 for 2010 and 2009, respectively.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Plan Description and Contribution Information (Continued)

Three-year trend information as of June 30 is as follows:

	2011	2010	2009
Annual required contributions	\$ 6,162,363	\$ 4,708,020	\$ 3,833,164
Percentage of ARC contributed	100 %	100 %	100 %
Net pension obligation	N/A	N/A	N/A

#### Capital Funding Commitment

As of June 30, 2011, the Plan has approximately \$4.4 million outstanding on an initial commitment of \$5 million with Adams Street Partners.

### Note 3 - Deposits and Investments

The investments of the System are designed to comply with requirements of the State of Michigan, which has numerous investment limitations depending on the type of investment. The investment policy adopted by the board is in accordance with state law and has authorized investments according to Michigan Public Act 314 of 1965, as amended. The most significant requirements as they impact the System are as follows:

1. Investments in stock are limited to 70% of the System's assets and investments in the stock of any one corporation are limited to 5% of the System's assets.
2. Investments in real estate are limited to 5% of the System's assets.
3. Investments in state and local government obligations are limited to 5% of the System's assets.
4. Investments in foreign securities are limited to 20% of the System's assets.

# City of Grand Rapids General Retirement System

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk**

Custodial credit risk for investments 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 investment or collateral securities that are in the possession of an outside party. This portfolio will minimize custodial credit risk by limiting investments to those permitted by Michigan Public Act 314 of 1965, as amended, which include: (a) United States Treasury and Agency, (b) Mortgages (Collateral and CMOs), (c) Corporate Bonds (industrial, finance, asset-backed, utilities, telephone, and Yankee), (d) Derivatives (futures, swaps, option contracts on the S&P 500 Index and U.S. Interest Rates, and futures and option contracts on U.S. Treasury and Agency securities), (e) American Depository Receipts, (f) Non-Dollar Bonds, (g) Emerging Market Debt, (h) Cash equivalent investments (including repurchase agreements), (i) Short-term investment funds, (j) International Depository Receipts, (k) Global Depository Receipts, (l) Convertible Bonds, (m) Open and closed-end country funds, and (n) Warrants.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Michigan Public Act 314 of 1965, as amended; support the overall investment policies of the System; understand and accept their designated "role" within the System's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines of this document and/or any additional written instructions that amend the investment policy statement. As of June 30, 2011, no cash equivalents were exposed to custodial credit risk. As of June 30, 2010, \$5,802 of cash equivalents was uninsured and uncollateralized, exposing the cash equivalents to custodial credit risk.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This portfolio structures its fixed-income allocation to be approximately neutral in duration and interest rate risk to that of the benchmark (Barclays Aggregate Index). This should mitigate the relative over- or under-performance of the fixed-income composite as a result of changing interest rates.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

As of June 30, 2011, the System had the following investments and maturities:

	Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 3,873,136	\$ -	\$ 1,108,932	\$ -	\$ 2,764,204	\$ -
Commercial mortgage backed	3,673,371	-	-	-	3,673,371	-
Corporate bonds and fixed-income commingled funds	61,724,425	1,920,754	27,322,845	21,621,253	10,859,573	-
Government agencies	115,042	-	-	-	115,042	-
Government bonds	9,146,335	-	1,655,374	-	7,490,961	-
Government mortgage backed	12,405,526	-	426,206	1,170,753	10,808,567	-
Municipal/Provincial bonds	81,199	-	-	-	81,199	-
Non-government backed CMOs	3,477,120	-	-	1,167,944	2,309,176	-
Short-term investment funds	4,565,130	4,565,130	-	-	-	-
<b>Total</b>	<b>\$ 99,061,284</b>	<b>\$ 6,485,884</b>	<b>\$ 30,513,357</b>	<b>\$ 23,959,950</b>	<b>\$ 38,102,093</b>	<b>\$ -</b>

As of June 30, 2010, the System had the following investments and maturities:

	Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 4,505,019	\$ -	\$ 1,609,618	\$ -	\$ 2,895,401	\$ -
Commercial mortgage backed	3,830,890	-	-	-	3,830,890	-
Corporate bonds and fixed-income commingled funds	58,875,391	2,799,508	28,742,874	16,181,990	11,151,019	-
Government agencies	1,297,816	201,312	802,654	-	293,850	-
Government bonds	7,931,641	-	1,725,102	-	6,206,539	-
Government mortgage backed	10,589,531	-	378,947	577,813	9,632,771	-
Municipal/Provincial bonds	82,933	-	-	-	82,933	-
Non-government backed CMOs	4,583,151	-	-	911,024	3,672,127	-
Other fixed income	6,166	-	-	-	-	6,166
Short-term investment funds	1,950,818	1,950,818	-	-	-	-
<b>Total</b>	<b>\$ 93,653,356</b>	<b>\$ 4,951,638</b>	<b>\$ 33,259,195</b>	<b>\$ 17,670,827</b>	<b>\$ 37,765,530</b>	<b>\$ 6,166</b>

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed-income portfolio invests in both investment grade bonds and high yield bonds. However, the overall credit rating for the composite is not to be below an "A" rating. As of June 30, 2011 and 2010, the System held investments with the following credit ratings:

Fair market value as of June 30, 2011 by investment type and credit rating is as follows:

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	AGY/TSY	Not Rated
Asset-backed securities	\$ 2,000,495	\$ -	\$ -	\$ -	\$ -	\$ 566,207	\$ -	\$ 197,502	\$ -	\$ -	\$ -	\$ 1,108,932
Commercial mortgage backed	3,673,371	-	-	-	-	-	-	-	-	-	-	-
Corporate bonds and fixed-income commingled funds	26,217,573	3,738,906	13,552,932	9,173,444	4,216,810	2,579,063	1,091,949	181,991	70,774	338,706	-	562,277
Government agencies	-	-	-	87,188	-	-	-	-	-	-	-	115,042
Government bonds	-	-	-	-	-	-	-	-	-	-	-	9,059,148
Government mortgage backed	-	-	-	-	-	-	-	-	-	-	12,405,526	-
Municipal/Provincial bonds	-	-	-	81,199	-	-	-	-	-	-	-	-
Non-government backed CMOs	185,033	-	-	-	-	-	1,034,284	183,105	-	-	-	2,074,698
Short-term investment funds	-	-	-	-	-	-	-	-	-	-	-	4,565,130
<b>Total</b>	<b>\$ 32,076,472</b>	<b>\$ 3,738,906</b>	<b>\$ 13,552,932</b>	<b>\$ 9,341,831</b>	<b>\$ 4,216,810</b>	<b>\$ 3,145,270</b>	<b>\$ 2,126,233</b>	<b>\$ 562,598</b>	<b>\$ 70,774</b>	<b>\$ 338,706</b>	<b>\$ 12,405,526</b>	<b>\$ 17,485,227</b>

Fair market value as of June 30, 2010 by investment type and credit rating is as follows:

	AAA	AA	A	BBB	BB	B	CCC	CC	AGY/TSY	Not Rated
Asset-backed securities	\$ 3,477,404	\$ -	\$ -	\$ -	\$ 426,579	\$ 355,075	\$ -	\$ 245,961	\$ -	\$ -
Commercial mortgage backed	3,830,890	-	-	-	-	-	-	-	-	-
Corporate bonds and fixed-income commingled funds	-	836,478	3,799,073	3,290,386	751,627	116,222	214,060	-	-	49,867,545
Government agencies	802,654	-	201,312	-	-	-	-	-	-	293,850
Government bonds	7,845,204	-	-	86,437	-	-	-	-	-	-
Government mortgage backed	-	-	-	-	-	-	-	-	10,589,531	-
Municipal/Provincial bonds	-	-	-	82,933	-	-	-	-	-	-
Non-government backed CMOs	564,036	-	-	-	-	-	1,399,471	231,478	-	2,388,166
Other fixed income	-	-	-	-	-	-	-	-	-	6,166
Short-term investment funds	-	-	-	-	-	-	-	-	-	1,950,818
<b>Total</b>	<b>\$16,520,188</b>	<b>\$ 836,478</b>	<b>\$ 4,000,385</b>	<b>\$ 3,459,756</b>	<b>\$ 1,178,206</b>	<b>\$ 471,297</b>	<b>\$ 1,613,531</b>	<b>\$ 477,439</b>	<b>\$10,589,531</b>	<b>\$54,506,545</b>

#### 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. It is the System's policy that no single holding will represent more than 5% of the total fund. As of June 30, 2011 and 2010, no single holding within this portfolio represented more than 5% of the total fund.



# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. In general, the foreign currency exposure resulting from international investments is not hedged. This exposes the portfolio to foreign currency risk, which is not expected to harm or help the performance of the fund in a significant way over the long term.

As of June 30, 2011, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Government Agencies	Corporate Bonds and Fixed- income Commingled Funds
Austria	\$ 368,500	\$ 368,500	\$ -	\$ -	\$ -
Australia	1,382,548	759,334	-	-	623,214
Belgium	1,624,751	1,624,751	-	-	-
Brazil	1,794,925	1,496,334	-	-	298,591
Canada	5,428,522	5,203,670	-	-	224,852
Chile	619,750	619,750	-	-	-
China	1,619,168	1,619,168	-	-	-
Denmark	1,619,168	1,619,168	-	-	-
Euro	15,146	15,146	-	-	-
France	5,602,543	5,332,087	-	-	270,456
Germany	4,248,920	4,248,920	-	-	-
India	217,750	217,750	-	-	-
Ireland	357,334	357,334	-	-	-
Israel	295,620	295,620	-	-	-
Italy	339,193	-	-	-	339,193
Japan	5,706,171	5,706,171	-	-	-
Mexico	87,188	-	87,188	-	-
Netherlands	4,997,420	4,505,753	-	-	491,667
Norway	1,658,251	1,658,251	-	-	-
Republic of Korea	2,785,974	2,233,335	-	-	552,639
South Africa	630,917	630,917	-	-	-
Spain	880,712	681,167	-	-	199,545
Sweden	770,501	770,501	-	-	-
Switzerland	6,069,088	6,069,088	-	-	-
Turkey	323,834	323,834	-	-	-
United Kingdom	9,980,957	9,039,423	-	-	941,534

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

As of June 30, 2010, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Government Agencies	Corporate Bonds and Fixed- income Commingled Funds
Australia	\$ 1,003,700	\$ 416,394	\$ -	\$ -	\$ 587,306
Brazil	2,039,857	1,753,166	-	-	286,691
Canada	4,000,735	4,000,735	-	-	-
Chile	404,364	404,364	-	-	-
China	757,872	757,872	-	-	-
Denmark	964,928	964,928	-	-	-
Euro	11,529,817	11,529,817	-	-	-
France	272,136	-	-	-	272,136
Hong Kong	1,356,472	1,356,472	-	-	-
India	119,081	119,081	-	-	-
Israel	627,199	627,199	-	-	-
Italy	364,347	-	-	-	364,347
Japan	5,888,693	5,888,693	-	-	-
Mexico	86,438	-	86,438	-	-
Netherlands	258,339	-	-	-	258,339
Norway	778,388	778,388	-	-	-
Republic of Korea	757,529	-	-	201,312	556,217
South Africa	418,754	418,754	-	-	-
Spain	76,664	-	-	-	76,664
Sweden	397,638	397,638	-	-	-
Switzerland	3,657,671	3,657,671	-	-	-
United Kingdom	8,161,128	7,499,880	-	-	661,248

# City of Grand Rapids General Retirement System

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

#### Securities Lending Risk

As of June 30, 2011, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral		Fair Value of Loaned Securities Collateralized by Noncash Collateral		Market Value of Noncash Collateral
		Cash Collateral			
U.S. corporate fixed funds	\$ 2,169,823	\$ -	\$ -	\$ -	-
U.S. equity funds	6,767,411	-	227,400	-	-
U.S. government fixed funds	7,534,301	-	-	-	-
Core U.S.A. Fund	-	16,814,451	-	-	231,081
<b>Total</b>	<b>\$ 16,471,535</b>	<b>\$ 16,814,451</b>	<b>\$ 227,400</b>	<b>\$ 231,081</b>	

As of June 30, 2010, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral		Fair Value of Loaned Securities Collateralized by Noncash Collateral		Market Value of Noncash Collateral
		Cash Collateral			
Global equity funds	\$ 5,033,584	\$ -	\$ 67,183	\$ -	-
U.S. corporate fixed funds	813,730	-	-	-	-
U.S. equity funds	6,272,787	-	-	-	-
U.S. government fixed funds	7,954,183	-	-	-	-
Core U.S.A. Fund	-	20,748,327	-	-	70,926
<b>Total</b>	<b>\$ 20,074,284</b>	<b>\$ 20,748,327</b>	<b>\$ 67,183</b>	<b>\$ 70,926</b>	

Michigan Public Act 314 of 1965, as amended, permits, and trustees have implemented, a securities lending program whereby the System, through The Northern Trust Company, lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System has authorized The Northern Trust Company to utilize the Core U.S.A. Fund in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The System receives cash, letters of credit, or government securities as collateral for loans of its securities to approved borrowers. Initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and the collateral are denominated in different currencies.

# **City of Grand Rapids General Retirement System**

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## **Notes to Financial Statements June 30, 2011 and 2010**

### **Note 3 - Deposits and Investments (Continued)**

The Northern Trust Company will indemnify the System if it is unable to recover borrowed securities and distributions made during the term of the loan or loans with respect to those securities as a result of The Northern Trust Company's failure to: (1) make a reasonable determination of the creditworthiness of a borrower, (2) demand adequate and appropriate collateral on a prompt and timely basis, perfect a security interest, obtain equivalent rights in the collateral or maintain control of the collateral, or (3) otherwise perform its duties and responsibilities under its agreement with the System or applicable law.

All securities loans can be terminated on demand by either the System or The Northern Trust Company and are subject to the performance by both parties of any of their respective obligations that remain outstanding at the time of termination. Upon termination of this program by either party, The Northern Trust Company shall terminate all outstanding loans of the System's securities and shall make no further loans. The System does not have the ability to pledge or sell collateral securities without a borrower default. There are no restrictions on the amount of the loans that can be made. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

## **Required Supplemental Information**

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# City of Grand Rapids General Retirement System

## Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
General Retirement Systems:						
06/30/2004	\$ 282,160,341	\$ 307,762,043	\$ 25,601,702	92%	\$ 51,752,109	50%
06/30/2005	\$ 305,533,088	\$ 334,554,231	\$ 29,021,143	91%	\$ 53,451,352	54%
06/30/2006	\$ 352,522,401	\$ 352,860,547	\$ 338,146	100%	\$ 52,838,163	1%
06/30/2007	\$ 391,693,895	\$ 368,873,096	\$ (22,820,799)	106%	\$ 52,426,527	0%
06/30/2008	\$ 398,766,770	\$ 376,984,359	\$ (21,782,411)	106%	\$ 49,970,419	0%
06/30/2009	\$ 381,136,182	\$ 391,339,300	\$ 10,203,118	97%	\$ 51,808,141	20%
06/30/2010	\$ 366,543,009	\$ 435,893,490	\$ 69,350,481	84%	\$ 49,336,606	141%

# City of Grand Rapids General Retirement System

## Required Supplemental Information Schedule of Employer Contributions

Fiscal Year/Period Ended	Annual Required Contribution	Percentage Contributed
6/30/2005	\$ 8,632,941	100%
6/30/2006	\$ 8,596,017	100%
6/30/2007	\$ 8,733,871	100%
6/30/2008	\$ 6,008,558	100%
6/30/2009	\$ 3,833,164	100%
6/30/2010	\$ 4,708,020	100%
6/30/2011	\$ 6,162,363	100%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2010, the latest actuarial valuation, follows:

Valuation date	June 30, 2010
Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.34%
Projected salary	4.0% - 8.0%

\* 7.50% for groups receiving annual post-retirement increases, 7.25% for groups participating in the 13th Check program. Including inflation at 3.5% and cost of living adjustment