City of Grand Rapids
General Retirement System

Financial Statements
Years Ended June 30, 2005 and 2004

BDO

BDO Seidman, LLP
Accountants and Consultants

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General Retirement System

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Contents

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Independent Auditors' Report

Board of Trustees
City of Grand Rapids
General Retirement System
Grand Rapids, Michigan

We have audited the accompanying statements of plan net assets of the City of Grand Rapids General Retirement System (the System) as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. 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 audit.

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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2005 and 2004, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

BDO Seidman, LLP

Grand Rapids, Michigan
September 20, 2005

This section of the City of Grand Rapids General Retirement System (the System) annual financial statements presents a discussion and analysis of the financial performance of the System for the fiscal year ended June 30, 2005 with selected comparative information for the year ended June 30, 2004. This discussion has been prepared by management along with the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements. The 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.

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 revenues 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 (see Note 4) 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

A summarized comparison of the System's assets, liabilities and net assets at June 30, 2005 is as follows:

	2005	2004
Assets		
Investments	**$ 396,970,687**	$ 344,138,263
Receivables	**6,870,731**	10,103,592
Total Assets	**403,841,418**	354,241,855
Liabilities	**74,838,921**	47,480,032
Net Assets Held in Trust for Pension Benefits	**$ 329,002,497**	$ 306,761,823

System total assets as of June 30, 2005 were $403,841,418 and were mostly comprised of cash, investments, interest and dividends, and contributions due from members and the City of Grand Rapids. Of this amount, $58,478,647 represents collateral held by a broker under the system's securities lending program. Total assets increased $49,599,563 from the prior year, primarily due to favorable investment returns and a higher value of securities out on loan on June 30, 2005.

Total liabilities as of June 30, 2005 were $74,838,921 and were comprised of administrative expenses and investment management fees due after the close of the fiscal year and pending trades (purchases). Securities on loan under the System's securities lending program represent $58,478,647 of the liability amount. Total liabilities increased $27,358,889 from the prior year.

Because the number of securities out on loan under the system's securities 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. The increase in assets caused by securities lending will always be offset by a corresponding liability in the same amount, so that the two amounts cancel each other out. Securities lending income is used to offset the system's custody and benefit payment expenses.

Statement of Changes in Plan Net Assets
A summarized comparison of the System's additions, deductions, and changes in plan net assets at June 30, 2005 is as follows:

	2005	2004
Additions		
Contributions	**$ 11,002,602**	$ 8,116,953
Net income from investing activities	**26,942,725**	44,788,442
Net income from securities lending	**29,248**	7,531
Total Additions	**37,974,575**	52,916,926
Deductions		
Benefits	**15,379,720**	14,924,627
Administrative expense	**354,181**	376,219
Total Deductions	**15,733,901**	15,300,846
Net increase	**22,240,674**	37,612,080
Net Assets Held in Trust for Pension Benefits, beginning of year	**306,761,823**	269,149,743
Net Assets Held in Trust for Pension Benefits, end of year	**$ 329,002,497**	$ 306,761,823

Revenues - Additions to Plan Net Assets
Revenue sources include employer contributions, member contributions, earnings on investments, and securities lending income. Contributions, investment income, and securities lending income for the fiscal year ended June 30, 2005 totaled $37,974,575.

Total member contributions increased from the previous year by $169,204, primarily due to increased salaries. Employer contributions increased from the previous year by $2,716,445, due to a higher computed employer contribution rate. Investment income decreased from the previous year by $17,845,717. Securities lending income increased from the previous year by $21,717.

Expenses - Deductions From Plan Net Assets
The primary expenses of the System include the payment of pension benefits to members and beneficiaries, refunds of contributions and interest to former members, and the cost of administering the System. Total deductions, including investment management fees, for the fiscal year ended June 30, 2005 were $16,937,560; of this, payments for retirement benefits were $15,379,720, an increase of $455,093 over the previous year.

Differences in benefit payments can occur for various reasons, including fluctuations in the 13th Check distribution amount from year to year, and the number of active members who terminate employment and withdraw their contributions during the year.

Other Retirement System Activities
The assets that were previously transferred from the large cap core equity account at INVESCO/National Asset Management to the Russell 1000 equity index account at Northern Trust Global Investments were placed with Lotsoff Capital Management.

The System's performance consultant, Wilshire Associates, reported a market rate of return of 9.16% on retirement system assets for the year ended June 30, 2005. Had the assets all been invested passively, the return would have been 8.68%, which means that the System's assets outperformed their benchmark by 0.48%.

The System as a Whole
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.

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 System's office, 233 E. Fulton, Suite 216, Grand Rapids, Michigan 49503.

Public Pension Coordinating Council

Public Pension Standards

2005 Award

Presented to

City of Grand Rapids General Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H Winkle

Alan H. Winkle
Program Administrator

City of Grand Rapids General Retirement System

Statements of Plan Net Assets

June 30,	**2005**	2004
Assets		
Cash and Money Market Funds	**$ 5,114,315**	$ 9,219,417
Investments at Fair Value		
United States government obligations	**52,696,680**	46,247,337
Assets backed securities	**19,898,480**	12,804,982
State and municipal bonds	**2,254,994**	3,927,528
Corporate bonds	**32,018,448**	29,450,594
Common stocks and equity mutual funds	**209,400,224**	194,858,545
Partnerships	**17,108,899**	16,105,389
Investment held by broker under securities lending	**58,478,647**	31,524,471
Total Cash and Investments	**396,970,687**	344,138,263
Receivables		
Employer contributions	**947,243**	411,095
Plan member contributions	**191,857**	147,678
Interest and dividends	**1,057,558**	892,077
Pending trades - sales	**4,674,073**	8,652,742
Total Receivables	**6,870,731**	10,103,592
Total Assets	**403,841,418**	354,241,855
Liabilities		
Administrative expenses payable	**56,489**	51,824
Investment management fees payable	**192,245**	141,586
Pending trades - purchases	**16,111,540**	15,762,151
Liabilities under securities lending	**58,478,647**	31,524,471
Total Liabilities	**74,838,921**	47,480,032
Net Assets Held in Trust for Pension Benefits		
(a schedule of funding progress is presented in Note 4)	**$ 329,002,497**	$ 306,761,823

See accompanying notes to financial statements.

City of Grand Rapids General Retirement System

Statements of Changes in Plan Net Assets

Year ended June 30,	**2005**	2004
Additions		
Contributions		
Employer	**$ 8,632,941**	$ 5,916,496
Plan members	**2,369,661**	2,200,457
Total Contributions	**11,002,602**	8,116,953
Investment Income		
Net appreciation in fair value of investments	**22,531,928**	40,170,717
Interest and dividends	**5,614,456**	5,691,028
Total Investment Income	**28,146,384**	45,861,745
Less Investment Expense	**1,203,659**	1,073,303
Net Income From Investing Activities	**26,942,725**	44,788,442
Securities Lending		
Income	**44,976**	11,581
Expense	**(15,728)**	(4,050)
Net Income From Securities Lending	**29,248**	7,531
Net Investment Income	**26,971,973**	44,795,973
Total Additions	**37,974,575**	52,912,926
Deductions		
Benefits	**15,379,720**	14,924,627
Administrative expenses	**354,181**	376,219
Total Deductions	**15,733,901**	15,300,846
Net Increase	**22,240,674**	37,612,080
Net Assets Held in Trust for Pension Benefits, beginning of the year	**306,761,823**	269,149,743
Net Assets Held in Trust for Pension Benefits, end of the year	**$ 329,002,497**	$ 306,761,823

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

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

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.

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 most significant requirements as they impact the System are:

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. Equity investments in real estate are limited to 5% of the System's assets;
3. Investment 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.

The System has contracted with investment managers that utilize derivatives in their management of assets. The use of derivatives is limited to futures and options contracts on United States Treasury securities to create synthetic positions and adjust the duration of the bond portfolio. Covered puts and calls may be written up to 25% of the notional value of the bond portfolio to enhance income. Asset managers are prohibited from entering into derivative securities that effectively leverage the portfolio.

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 plan net assets at the date of the financial statements and the actuarial present value of accumulated plan benefits as of the benefit information date, the changes in plan net assets 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. 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 near term would be material to the financial statements.

2. Description of the System

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 of Grand Rapids, including the 61st District Court, but excluding uniformed police and fire employees. Benefit provisions are established and amended by City ordinance. The System is a component unit of the City of Grand Rapids.

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 8 years of service. Employees may elect to retire after attaining age 62 and completing 8 years of 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 of credited service for all members except those in the Library Units I and II, who receive 2.5% of final average compensation times years of credited service. For members of the Crime Scene Technicians group, their final average compensation shall be increased by 4.7%. 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 their credited service cap.

As of June 30, 2005, the date of the latest actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries receiving benefits	857
Terminated employees entitled to but not yet receiving benefits	68
Active plan members	1,108
Total	2,033

The City is required to contribute at an actuarially determined rate, calculated to be 16.30% and 12.05% for the years ended June 30, 2005 and 2004, respectively. Plan member contributions, which are required by ordinance, are based on compensation. Contributions are 2% to 4.93% of regular compensation paid by the City, depending on job classification. These contributions are 100% vested. Plan members retain the right upon termination to withdraw their contributions plus regular interest, as defined by the System, 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, 2005 is $24,424,393.

3. Deposits and Investments

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 (Lehman Aggregate Index). This should mitigate the relative over- or under-performance of the fixed income composite as a result of changing interest rates. As of June 30, 2005, the System had the following investments and maturities:

	Investment Maturities - in Years				
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Asset Backed Securities	$ 9,808,116	$ -	$ 1,414,237	$ 854,060	$ 7,539,819
Commercial Mortgage Backed	1,602,074	-	-	-	1,602,074
Corporate Bonds	32,018,448	638,447	9,589,862	9,534,932	12,255,207
Fixed Inc. Derivatives - Futures	7,127,719	7,127,719	-	-	-
Fixed Inc. Derivatives - Options	(185,417)	(185,417)	-	-	-
Government Agencies	4,393,464	608,855	3,306,804	249,236	228,569
Government Bonds	20,180,330	247,744	7,357,948	1,455,955	11,118,683
Government Mortgage Backed	24,894,138	-	392,691	3,533,014	20,968,433
Index Linked Government Bonds	3,228,748	-	2,538,328	239,740	450,680
Municipal/Provincial Bonds	2,254,994	-	410,440	784,445	1,060,109
Non-Government Backed C.M.O.s	8,488,290	-	-	-	8,488,290
Total	$113,810,904	$ 8,437,348	$ 25,010,310	$16,651,382	$ 63,711,864

The country of risk for all of the Non-Government Backed C.M.O.s is the United States, with the exception of one security; the country of risk is Australia. The earliest maturity date is June 25, 2018 and the latest maturity date is April 25, 2045.

Credit Risk

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The fixed income portfolio invests in both investment grade bonds as well as high yield bonds. However, the overall credit rating for the composite is not to be below an “A” rating. As of June 30, 2005, the System had the following credit ratings:

Investment Type	Lowest Moody Rating	Lowest S&P Rating
Asset Backed Securities	Ba1	BB+
Commercial Mortgage Backed	Aaa	AAA
Corporate Bonds	Caa1	B-
Government Agencies	Aaa	AAA
Government Bonds	Baa1	BBB
Government Mortgage Backed Securities	AGY	AGY
Index Linked Government Bonds	Aaa	AAA
Municipal/Provincial Bonds	Baa3	A
Non-Government Backed C.M.O.s	Baa1	BBB+

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 System’s policy that no single holding will represent more than 5% of the total fund. As of June 30, 2005, no single holding within this portfolio represented more than 5% of the total fund.

Custodial Credit Risk

Custodial Credit Risk for investments is the risk that in the event of the failure of the counter-party 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, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to those permitted by Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq), 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; n)Warrants.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq); support the overall investment policies of the Plan; understand and accept their designated "role" within the Plan'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 this Investment Policy Statement. As of June 30, 2005, $300,358 of the System's bank balance of $5,114,315 was exposed to custodial credit risk as follows:

Short-term Bills and Notes not custodied by Northern Trust - $300,358

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, 2005, the System had the following foreign investments:

Investment Type	Currency Denomination	USD Amount
Common stock	Canada	$ 471,875
	Multi-National Agencies Region	54,562,843
Government bonds	Mexico	931,375
Corporate bonds	Australia	385,498
	Canada	140,983
	Cote d'Ivoire	82,368
	Hong Kong	241,873
	Luxembourg	408,716
	Mexico	292,750
	Netherlands	270,796
	Republic of Korea	359,947
	Singapore	310,688
	United Kingdom	502,960
Non-Government backed C.M.O.s	Australia	225,346
Total		$ 59,188,018

Securities Lending Risk

As of June 30, 2005, the System had the following investments:

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Non-Cash Collateral	Non-Cash Collateral
U.S. Agencies	$ 101,553	$ 104,299	$ 612,976	$ 628,480
U.S. Corporate Fixed	11,903,108	12,186,330	1,042,904	1,065,589
U.S. Equities	5,969,029	6,126,850	-	-
U.S. Government Fixed	39,234,488	40,061,168	3,786,792	3,864,257
Total	$ 57,208,178	$ 58,478,647	$ 5,442,672	$ 5,558,326

Public Act 314 permits, and Trustees have implemented, a Securities Lending program whereby the System, through The Northern Trust Company (NT), 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 NT to utilize the Core U.S.A. Collateral Section 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 their 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.

At fiscal year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. NT shall 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 either 1) NT fails to make a reasonable determination of the creditworthiness of a borrower, 2) NT fails to 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) NT fails to 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 NT and is 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, NT 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.

4. Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
6/30/2000	$286,055,331	$ 257,094,254	$ (28,961,077)	111%	$ 48,863,073	-%
6/30/2001	290,531,573	269,527,426	(21,004,147)	108	52,313,712	-
6/30/2002	282,764,403	285,261,608	2,497,205	99	49,209,733	5
6/30/2003*	270,637,794	297,568,110	26,930,316	91	51,005,278	53
6/30/2004	282,160,341	307,762,043	25,601,702	92	51,752,109	50
6/30/2005*	305,533,088	334,554,231	29,021,143	91	53,451,352	54

* Plan amended.

Schedule of Employer Contributions

Year ended June,	Annual Required Contribution	Percentage Contributed
2000	$ 3,180,232	100%
2001	815,441	100
2002	485,854	100
2003	1,600,534	100
2004	5,916,496	100
2005	8,632,941	100

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2005
Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4% - 8%

* Includes inflation at 4% and cost of living adjustment