City of Grand Rapids
General Retirement System

Financial Report
with Supplemental Information
June 30, 2012

City of Grand Rapids General Retirement System

Contents

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Independent Auditor's Report

To the Plan Administrator
City of Grand Rapids General Retirement System

We have audited the statement of net assets of City of Grand Rapids General Retirement System (the "System") as of June 30, 2012 and 2011 and the related statement of changes in 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 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 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 System as of June 30, 2012 and 2011 and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and retirement system schedules of funding progress and employer contributions, as identified on pages 2 through 5 and pages 20-21, respectively, 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, which 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 supplement 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.

Plante & Moran, PLLC

Grand Rapids, Michigan
October 17, 2012

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, 2012. 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, 2012 and 2011:

	2012	2011
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 2.19% and 25.61% on retirement system assets for the years ended June 30, 2012 and 2011, respectively. Had the assets all been invested passively, the return would have been 2.83% and 22.90%, which means that the System's assets underperformed their benchmark by 0.64% for the year ended June 30, 2012 and outperformed by 2.71% for the year ended June 30, 2011.

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.

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 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:

				Change from Prior Year	
	2010	2011	2012	In Dollars	As %
Assets:					
Cash and money market funds	$ 4,136,664	$ 4,664,425	$ 4,498,364	$ (166,061)	-3.6%
Stocks, equity mutual funds, and partnerships	188,748,003	239,384,735	224,864,157	(14,520,578)	-6.1%
Fixed income	91,696,372	94,496,154	101,870,301	7,374,147	7.8%
Real estate	15,329,399	19,312,415	18,155,898	(1,156,517)	-6.0%
Private equity partnerships	227,000	630,220	1,859,521	1,229,301	195.1%
Securities lending collateral	20,754,493	16,814,451	21,479,237	4,664,786	27.7%
Total cash and investments	320,891,931	375,302,400	372,727,478	(2,574,922)	-0.7%
Receivables	1,031,686	1,059,700	1,442,524	382,824	36.1%
Total assets	321,923,617	376,362,100	374,170,002	(2,192,098)	-0.6%
Liabilities:					
Administrative expenses and investment management fees payable	350,280	337,590	296,828	(40,762)	-12.1%
Pending trades - purchases	67,680	180,139	1,165,540	985,401	547.0%
Amounts due broker under securities lending agreement	20,748,327	16,814,451	21,479,237	4,664,786	27.7%
Total liabilities	21,166,287	17,332,180	22,941,605	5,609,425	32.4%
Net assets held in trust for pension benefits	**$ 300,757,330**	**$ 359,029,920**	**$ 351,228,397**	**$ (7,801,523)**	-2.2%

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 $21.2 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 of 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:

	2010	2011	2012	Change from Prior Year In Dollars	Change from Prior Year As %
Additions:					
Contributions	$ 7,526,013	$ 8,646,574	$ 12,204,511	$ 3,557,937	41.1%
Net investment income (loss)	51,191,915	75,838,098	7,209,159	(68,628,939)	-90.5%
Securities lending	47,830	37,911	26,503	(11,408)	-30.1%
Total additions	58,765,758	84,522,583	19,440,173	(65,082,410)	-77.0%
Deductions:					
Benefits	22,882,503	25,683,998	26,732,325	1,048,327	4.1%
Administrative expense	518,190	565,995	509,371	(56,624)	-10.0%
Total deductions	23,400,693	26,249,993	27,241,696	991,703	3.8%
Net increase (decrease)	35,365,065	58,272,590	(7,801,523)	(66,074,113)	-113.4%
Net assets held in trust for pension benefits:					
Beginning of year	265,392,265	300,757,330	359,029,920	58,272,590	19.4%
End of year	**$ 300,757,330**	**$ 359,029,920**	**$ 351,228,397**	**$ (7,801,523)**	-2.2%

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. The Board voted to commit $5 million with FLAG Capital Management in April 2011, with funding expected to occur over the next few years.

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, 2012 and 2011

	2012	2011
Assets		
Cash and investments:		
Cash and money market funds	$ 4,498,364	$ 4,664,425
United States government obligations	26,092,527	21,666,903
State and municipal bonds	80,607	81,199
Corporate bonds and fixed income commingled funds	64,845,983	61,724,425
Common stocks and equity mutual funds	224,864,157	239,384,735
Real estate	18,155,898	19,312,415
Asset-backed securities	10,851,184	11,023,627
Private equity	1,859,521	630,220
Investments held as collateral for securities lending - Core U.S.A. Fund	21,479,237	16,814,451
Total cash and investments	372,727,478	375,302,400
Receivables:		
Plan member contributions	154,752	142,386
Employer contributions	494,891	292,015
Interest and dividends	547,987	625,299
Pending trades - Sales	244,894	-
Total receivables	1,442,524	1,059,700
Total assets	374,170,002	376,362,100
Liabilities		
Administrative expenses payable	76,002	74,647
Investment management fees payable	220,826	262,943
Pending trades - Purchases	1,165,540	180,139
Amounts due broker under securities lending agreement	21,479,237	16,814,451
Total liabilities	22,941,605	17,332,180
Net Assets Held in Trust for Pension Benefits (a schedule of analysis of funding progress is presented in the required supplemental information)	**$ 351,228,397**	**$ 359,029,920**

See Notes to Financial Statements.

City of Grand Rapids General Retirement System

Statement of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Additions to Net Assets		
Contributions:		
Plan members	$ 3,255,272	$ 2,484,211
Employer	8,949,239	6,162,363
Total contributions	12,204,511	8,646,574
Investment income:		
Interest and dividends	4,249,141	4,192,812
Net appreciation in fair value of investments	3,819,032	72,752,554
Gross investment income	8,068,173	76,945,366
Less investment expenses	(859,014)	(1,107,268)
Net investment income	7,209,159	75,838,098
Securities lending:		
Income	40,757	58,303
Expense	(14,254)	(20,392)
Net securities lending income	26,503	37,911
Total additions - Net	19,440,173	84,522,583
Deductions from Net Assets		
Benefits	26,732,325	25,683,998
Administrative expenses	509,371	565,995
Total deductions	27,241,696	26,249,993
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(7,801,523)	58,272,590
Net Assets Held in Trust for Pension Benefits		
Beginning of year	359,029,920	300,757,330
End of year	**$ 351,228,397**	**$ 359,029,920**

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

The City of Grand Rapids (the "City") sponsors the Pension Plan of the City of Grand Rapids General Retirement System (the "System"), which is a contributory single-employer retirement plan. The System, which is administered by the System's Board of Trustees, is comprised of a defined benefit plan. The System provides retirement, disability and survivor benefits to Plan members and beneficiaries.

The Pension System of the City of Grand Rapids General Retirement System is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by: (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The Trustees of the Plan have fiduciary obligations and legal liability for any violations of fiduciary duties as independent Trustees.

Reporting Entity

The financial statements of the System are also included in the combined financial statements of the City of Grand Rapids as a Pension Trust Fund. The assets of the Pension Trust Fund include no securities or loans to the City or any other related party.

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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties

System 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 would be material to the financial statements.

New Accounting Pronouncements

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately-issued pension system financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the System, this standard will be adopted for the year ending June 30, 2014.

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. New hires for all bargaining units except the APAGR are not eligible for the Plan. The actual closing date differs by bargaining unit. 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.

Note 2 - Plan Description and Contribution Information (Continued)

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, ECO 1, 11, & 111, EC Supervisors, 61st District Court Judges and Non-Represented groups. The yearly allowances for these groups are as follows:

Covered Group	Date of Termination	Benefit Multiplier
APAGR	01/01/05 - 06/11/11	2.70%
	06/12/11 -	2.7%, 2.5% or 2.2% depending on the individual election made by employee 2.0% for members hired or re-entering service on or after 06/12/11
ECO I, II & III	01/01/02 - 03/31/12	2.70%
	04/01/12 -	2.7%, 2.5%, 2.2%, 2.0% or 1.8% depending on the individual election made by employee
EC Supervisors	01/01/06 - 01/07/12	2.70%
	01/08/12 -	2.7%, 2.5%, 2.2%, 2.0% or 1.8% depending on the individual election made by employee
61st District Court	01/01/05 - 01/08/11	2.70%
Judges	01/09/11 -	2.7%, 2.5% or 2.2% depending on the individual election made by employee
Non-Represented	01/01/05 - 09/04/10	2.70%
	09/05/10 -	2.7%, 2.5% or 2.2% depending on the individual election made by employee 2.0% for members hired or re-entering service from 09/05/10-06/30/11

For members of the Crime Scene Technicians group, final average compensation shall be increased by 5.7% and for members of the ECO I, II & III group, final average compensation shall be increased by 48.8%. 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, 2011 and 2010, the System's membership consisted of the following:

	2011	2010
Retirees and beneficiaries receiving pension benefits	1,049	1,021
Terminated plan members entitled to but not yet receiving benefits	88	87
Active plan members	911	919
Total	2,048	2,027

Note 2 - Plan Description and Contribution Information (Continued)

Contributions

The City is required to contribute at an actuarially determined rate, calculated to be 20.13% and 13.12% for the years ended June 30, 2012 and 2011, respectively.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions are 2.00% to 10.20% 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.

Legally Required Reserves

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, 2012 and 2011 is $27,983,591 and $26,453,041, respectively.

Annual Pension Costs

The annual employer contribution for the year ended June 30, 2012 was $8,949,239. The annual contribution was determined by the actuarial valuation at June 30, 2010 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.

The annual employer contribution for the year ended June 30, 2011 was $6,162,363. The annual contribution was determined by the actuarial valuation at June 30, 2009. Per the actuarial report dated June 30, 2010, all assumptions have remained consistent. The remaining amortization period is 29 years.

Note 2 - Plan Description and Contribution Information (Continued)

Funded Status and Funding Progress

As of June 30, 2011 and 2010, the most recent actuarial valuation dates, the plan was 81% and 84% funded on an actuarial basis, respectively. The actuarial accrued liability for benefits was $445,762,361 and $435,893,490, respectively, and the actuarial value of the assets was $360,280,315 and $366,543,009, respectively, resulting in an underfunding of $85,482,046 and $69,350,481, at June 30, 2011 and 2010. The covered payroll (annual payroll for active employees covered by the Plan) was $49,040,518 and $49,336,606 for 2011 and 2010, 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.

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

	2012	2011	2010
Annual required contributions	$ 8,949,239	$ 6,162,363	$ 4,708,020
Percentage of ARC contributed	100 %	100 %	100 %
Net pension obligation	N/A	N/A	N/A

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.

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, 2012 and 2011, no cash equivalents were exposed 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.

Note 3 - Deposits and Investments (Continued)

As of June 30, 2012, the System had the following investments and maturities:

	Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset-backed securities	$ 3,341,462	$ -	$ 1,006,167	$ -	$ 2,335,295
Commercial mortgage backed	4,619,140	-	-	-	4,619,140
Corporate bonds and fixed income commingled funds	64,845,983	1,790,898	56,994,487	2,287,352	3,773,246
Government agencies	1,012,574	-	1,012,574	-	-
Government bonds	11,476,884	-	4,049,415	-	7,427,469
Government mortgage backed	13,087,089	-	210,695	1,072,918	11,803,476
Government issued commercial mortgage-backed	515,979	-	-	515,979	-
Municipal/Provincial bonds	80,607	-	-	-	80,607
Non-government backed CMOs	2,890,582	-	-	1,108,284	1,782,298
Short-term investment funds	4,436,297	4,436,297	-	-	-
Total	$ 106,306,597	$ 6,227,195	$ 63,273,338	$ 4,984,533	$ 31,821,531

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
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	100,848	56,087,477	1,991,540	3,544,560
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	-	-	-
Total	$ 99,061,284	$ 4,665,978	$ 59,277,989	$ 4,330,237	$ 30,787,080

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, 2012 and 2011, the System held investments with the following credit ratings:

Fair market value as of June 30, 2012 by investment type and credit rating is as follows:

	AAA	AA	AA-	A1+	A	BBB	BB	B	CCC	CC	D	AGY/TSY	Not Rated
Asset-backed securities	$ 1,526,512	$ -	$ -	$ -	$ 305,318	$ -	$ -	$ 616,700	$ 252,884	$ 138,147	$ -	$ -	$ 501,901
Commercial mortgage backed	4,075,207	-	-	-	-	-	-	-	-	-	-	-	543,933
Corporate bonds	-	1,542,963	-	-	5,642,710	2,853,631	897,629	465,398	-	-	-	-	683,305
Fixed income commingled funds	-	-	52,760,347	-	-	-	-	-	-	-	-	-	-
Government agencies	-	1,012,574	-	-	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	-	-	102,375	-	-	-	-	-	11,374,509	-
Government mortgage backed	-	-	-	-	-	-	-	-	-	-	-	13,087,089	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	-	-	515,979	-
Municipal/Provincial bonds	-	-	-	-	-	80,607	-	-	-	-	-	-	-
Non-government backed CMOs	155,454	-	-	-	-	-	-	-	914,853	-	125,536	-	1,694,739
Short-term investment funds	-	-	-	4,436,297	-	-	-	-	-	-	-	-	-
Total	$ 5,757,173	$ 2,555,537	$ 52,760,347	$ 4,436,297	$ 5,948,028	$ 3,036,613	$ 897,629	$ 1,082,098	$ 1,167,737	$ 138,147	$ 125,536	$ 24,977,577	$ 3,423,878

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

	AAA	AA	A	AA-	BBB	BB	B	CCC	CC	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	405,122	1,398,294	4,625,241	-	2,869,463	1,067,347	369,889	-	-	-	436,113
Fixed income commingled funds	-	-	-	50,552,955	-	-	-	-	-	-	-
Government agencies	-	-	-	-	-	-	-	-	-	-	115,042
Government bonds	-	-	-	-	87,188	-	-	-	-	-	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
Total	$ 6,264,021	$ 1,398,294	$ 4,625,241	$ 50,552,955	$ 3,037,850	$ 1,067,347	$ 936,096	$ 1,034,284	$ 380,607	$ 12,405,526	$ 17,359,063

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, 2012 and 2011, no single holding within this portfolio represented more than 5% of the total fund.

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.

The System invests in an institutional commingled international fund with Neuberger Berman. The market value of this account was $48,772,216 and $56,064,438 as of June 30, 2012 and 2011 respectively.

As of June 30, 2012, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
U.S. Dollars	$ 53,840,692	$ 48,772,216	$ 102,375	$ 4,966,101
Euro	14,499	14,499	-	-

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

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
U.S. Dollars	$ 60,781,087	$ 56,128,993	$ 87,188	$ 3,941,692
Euro	15,146	15,146	-	-

Note 3 - Deposits and Investments (Continued)

Securities Lending Risk

As of June 30, 2012, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Noncash Collateral	Market Value of Noncash Collateral
U.S. agencies	$ 1,016,280	$ 1,032,960	$ -	$ -
U.S. corporate fixed funds	1,832,461	1,848,386	-	-
U.S. equity funds	7,254,910	7,281,610	-	-
U.S. government fixed funds	11,118,785	11,316,281	-	-
Total	$ 21,222,436	$ 21,479,237	$ -	$ -

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

	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Noncash Collateral	Market Value of Noncash Collateral
U.S. corporate fixed funds	$ 2,169,823	$ 2,213,190	$ -	$ -
U.S. equity funds	6,767,411	6,887,938	227,400	231,081
U.S. government fixed funds	7,534,301	7,713,323	-	-
Total	$ 16,471,535	$ 16,814,451	$ 227,400	$ 231,081

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. For the years ended June 30, 2012 and 2011, the collateral levels were 101.2% and 102%.

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.

Note 4 - Capital Funding Commitment

As of June 30, 2012, the Plan had approximately $3.7 million outstanding on an initial commitment of $5.0 million with Adams Street Partners. Also as of June 30, 2012, the Plan had approximately $4.4 million outstanding on an initial commitment of $5.0 million with FLAG Capital. As of June 30, 2011, the Plan had approximately $4.4 million outstanding on an initial commitment of $5.0 million with Adams Street Partners.

Required Supplemental Information

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:						
06/30/2006	$ 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
06/30/2011	360,280,315	445,762,361	85,482,046	81	49,040,518	174

Required Supplemental Information
Schedule of Employer Contributions

Fiscal Year/Period Ended	Annual Required Contribution	Percentage Contributed
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
6/30/2012	8,949,239	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation, follows:

Valuation date	June 30, 2011
Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return*	7.38%
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.