



# City of Grand Rapids General Retirement System

Financial Statements  
and Supplementary Information  
Years Ended June 30, 2013 and 2012

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

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Financial Statements and Supplementary Information  
Years Ended June 30, 2013 and 2012

# City of Grand Rapids General Retirement System

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the City of Grand Rapids General Retirement System (the System) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2013, and the changes in net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and retirement system schedules of funding progress on pages 5-8 and 23-24, 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *June 30, 2012 Financial Statements*

The financial statements of the City of Grand Rapids General Retirement System as of June 30, 2012 and for the year then ended were audited by other auditors whose report dated October 17, 2012 expressed an unqualified opinion on those statements.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October \_\_, 2013 on our consideration of the City of Grand Rapids General Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grand Rapids General Retirement System's internal control over financial reporting and compliance.

*BDO USA, LLP*

October 10, 2013

**City of Grand Rapids General Retirement System  
Management's Discussion and Analysis  
For the Year Ended June 30, 2013**

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, 2013. 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, 2013:

	2013	2012
U.S. equity	40%	45%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Commodities	5	-
Private equity	5	5

***Investment Results***

The System's performance consultant, Wilshire Associates, reported a market rate of return of 12.73% and 2.19% on retirement system assets for the years ended June 30, 2013 and 2012, respectively. Had the assets all been invested passively, the return would have been 11.72% and 2.83%, which means that the System's assets outperformed their benchmark by 1.01% for the year ended June 30, 2013 and underperformed their benchmark by 0.64% for the year ended June 30, 2012.

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 Position and the Statement of Changes in Plan Net Position. 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 Position presents all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Plan Net Position presents how the System's net position 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.

### *Statements of Plan Net Position*

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

	2011	2012	2013	Change From Prior Year	
				In Dollars	As %
<b>Assets</b>					
Cash and investments:					
Cash and money market funds	\$ 4,664,425	\$ 4,498,364	\$ 4,248,397	\$ (249,967)	(5.6)%
Common stocks and equity mutual funds	239,384,735	224,864,157	234,454,433	9,590,276	4.3
Fixed income	94,496,154	101,870,301	103,116,259	1,245,958	1.2
Real estate	19,312,415	18,155,898	19,035,348	879,450	4.8
Private equity	630,220	1,859,521	2,698,463	838,942	45.1
Commodities	-	-	15,375,749	15,375,749	100.0
Securities lending collateral	16,814,451	21,479,237	23,309,582	1,830,345	8.5
<b>Total cash and investments</b>	<b>375,302,400</b>	<b>372,727,478</b>	<b>402,238,231</b>	<b>29,510,753</b>	<b>7.9</b>
<b>Receivables</b>	<b>1,059,700</b>	<b>1,442,524</b>	<b>1,187,083</b>	<b>(255,441)</b>	<b>(17.7)</b>
<b>Total assets</b>	<b>376,362,100</b>	<b>374,170,002</b>	<b>403,425,314</b>	<b>29,255,312</b>	<b>7.8</b>
<b>Liabilities</b>					
Administrative expenses and investment management fees payable	337,590	296,828	334,665	37,837	12.7
Pending trades - purchases	180,139	1,165,540	69,031	(1,096,509)	(94.1)
Amounts due broker under securities lending agreement	16,814,451	21,479,237	23,309,582	1,830,345	8.5
<b>Total liabilities</b>	<b>17,332,180</b>	<b>22,941,605</b>	<b>23,713,278</b>	<b>771,673</b>	<b>3.4</b>
<b>Net Position Held in Trust for Pension Benefits</b>					
	\$ 359,029,920	\$ 351,228,397	\$ 379,712,036	\$ 28,483,639	8.1

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 \$22.8 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 always will 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.

### *Statements of Changes in Plan Net Position*

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

	2011	2012	2013	Change From Prior Year	
				In Dollars	As %
<b>Additions</b>					
Contributions	\$ 8,646,574	\$ 12,204,511	\$ 12,069,185	\$ (135,326)	(1.1)%
Net investment income	75,838,098	7,209,159	44,013,431	36,804,272	510.5
Net securities lending	37,911	26,503	29,514	3,011	11.4
<b>Total additions</b>	<b>84,522,583</b>	<b>19,440,173</b>	<b>56,112,130</b>	<b>36,671,957</b>	<b>188.6</b>
<b>Deductions</b>					
Benefits	25,683,998	26,732,325	27,152,432	420,107	1.6
Administrative expenses	565,995	509,371	476,059	(33,312)	(6.5)
<b>Total deductions</b>	<b>26,249,993</b>	<b>27,241,696</b>	<b>27,628,491</b>	<b>386,795</b>	<b>1.4</b>
<b>Net increase (decrease)</b>	<b>58,272,590</b>	<b>(7,801,523)</b>	<b>28,483,639</b>	<b>36,285,162</b>	<b>(465.1)</b>
<b>Net position held in trust for pension benefits:</b>					
beginning of year	300,757,330	359,029,920	351,228,397	(7,801,523)	(2.2)
<b>End of Year</b>	<b>\$ 359,029,920</b>	<b>\$ 351,228,397</b>	<b>\$ 379,712,036</b>	<b>\$ 28,483,639</b>	<b>8.1</b>

### *Other System Activities*

The System voted to hire Wellington Trust Company to manage 5% of assets in a commodities fund. The contract was signed in early January 2013, and funding took place on January 31, 2013



and February 1, 2013. The System also committed an additional \$5 million private equity investment to Adams Street Partners in its 2013 Global Fund. The contract was signed in June 2013, and the first capital contribution was made in early July 2013. As with all private equity investments, funding will occur gradually over an extended time period.

*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.

## Financial Statements

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# City of Grand Rapids General Retirement System

## Statements of Plan Net Position

<i>June 30,</i>	2013	2012
<b>Assets</b>		
<b>Cash and Investments</b>		
Cash and money market funds	\$ 4,248,397	\$ 4,498,364
United States government obligations	26,385,269	26,092,527
State and municipal bonds	890,230	80,607
Corporate bonds and fixed income commingled funds	65,094,771	64,845,983
Common stocks and equity mutual funds	234,454,433	224,864,157
Real estate	19,035,348	18,155,898
Asset-backed securities	10,745,989	10,851,184
Commodities	15,375,749	-
Private equity	2,698,463	1,859,521
Investments held as collateral for securities lending:		
Core USA Fund	23,309,582	21,479,237
<b>Total Cash and Investments</b>	<b>402,238,231</b>	<b>372,727,478</b>
<b>Receivables</b>		
Plan member contributions	218,221	154,752
Employer contributions	471,912	494,891
Interest and dividends	496,950	547,987
Pending trades - sales	-	244,894
<b>Total Receivables</b>	<b>1,187,083</b>	<b>1,442,524</b>
<b>Total Assets</b>	<b>403,425,314</b>	<b>374,170,002</b>
<b>Liabilities</b>		
Administrative expenses payable	74,857	76,002
Investment management fees payable	259,808	220,826
Pending trades - purchases	69,031	1,165,540
Amounts due broker under securities lending agreement	23,309,582	21,479,237
<b>Total Liabilities</b>	<b>23,713,278</b>	<b>22,941,605</b>
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$ 379,712,036</b>	<b>\$ 351,228,397</b>

*See accompanying notes to financial statements.*

# City of Grand Rapids General Retirement System

## Statements of Changes in Plan Net Position

<i>Year ended June 30,</i>	2013	2012
<b>Additions to Net Position</b>		
<b>Contributions</b>		
Plan members	\$ 3,933,342	\$ 3,255,272
Employer	8,135,843	8,949,239
<b>Total Contributions</b>	<b>12,069,185</b>	<b>12,204,511</b>
<b>Investment Income</b>		
Interest and dividends	4,560,411	4,249,141
Net appreciation in fair value of investments	40,412,375	3,819,032
Less: investment expense	(959,355)	(859,014)
Net investment income, less investment expense	44,013,431	7,209,159
<b>Securities Lending Income</b>		
Income	45,387	40,757
Expense	(15,873)	(14,254)
Net Securities Lending Income	29,514	26,503
<b>Total Additions, net</b>	<b>56,112,130</b>	<b>19,440,173</b>
<b>Deductions From Net Position</b>		
Benefits	27,152,432	26,732,325
Administrative expenses	476,059	509,371
<b>Total Deductions From Net Position</b>	<b>27,628,491</b>	<b>27,241,696</b>
Net Increase (Decrease) in Net Position Held in Trust for Pension Benefits	28,483,639	(7,801,523)
Net Position Held in Trust for Pension Benefits, beginning of year	351,228,397	359,029,920
Net Position Held in Trust for Pension Benefits, end of year	\$ 379,712,036	\$ 351,228,397

*See accompanying notes to financial statements.*

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### *Reporting Entity*

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 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 (IRC) and is an independent entity (separate and distinct from the employer/plan sponsor) as required by: (1) state law and (2) IRC 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. There are seven Trustees: three elected by plan members, one member of the City Commission to be appointed by the City Commission, and three persons appointed by the mayor, subject to the approval of the City Commission.

The financial statements of the System are included in the basic 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 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, 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.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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### *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 Pronouncement*

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 non-employer 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.

### *Reclassifications*

Certain reclassifications of prior year amounts have been made to conform with current year presentation.

### *Subsequent Events*

Subsequent events have been evaluated by management through October 10, 2013, the date these financial statements were available to be issued.

## **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 persons regularly employed by the City, including the 61<sup>st</sup> District Court and Grand Rapids Public Library, but excluding uniformed police and fire employees. New hires in 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 and provide for an annual escalator to each member's retirement allowance subsequent to his/her retirement date. The adjustment is a 1% non-compounding escalator and, depending upon bargaining unit, is available to eligible members after the specified waiting period. Eligibility for the escalator depends upon the member's bargaining unit and termination date. Members of the Emergency Communication Operators (ECO) I, II and III group and Non-Bargaining Management group are not eligible for the escalator program; they are eligible for the plan's 13<sup>th</sup> Check program.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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### *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 the applicable benefit multiplier selected by the member multiplied by the member's final average compensation, multiplied by years and months of credited service. For members of the Crime Scene Technicians group, final average compensation shall be increased by 5.9%; for members of the ECO I, II and III group, final average compensation shall be increased by 45.6%. 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. All plan members are eligible for non-duty disability benefits after completing ten or more years of credited service and before attaining minimum service retirement age. All plan members are eligible for duty disability retirement benefits prior to attaining minimum service retirement age. Disability retirement benefits are determined in the same manner as retirement benefits and are not subject to an actuarial reduction. Duty disability allowances shall not be less than 50% of the member's final average salary; if the member is a part of the Crime Scene Technician and Latent Print Examiner or ECO I, II and III group, the allowance shall not be less than 62% of the member's final average salary. Death benefits are available if a member dies while in employer service, before retiring, but after becoming eligible to retire with an immediate allowance.

At June 30, 2012 and 2011, the System's membership consisted of the following:

<i>June 30,</i>	2012	2011
Retirees and beneficiaries receiving pension benefits	1,062	1,049
Terminated plan members entitled to but not yet receiving benefits	85	88
Active plan members	844	911
<b>Total</b>	<b>1,991</b>	<b>2,048</b>

### *Contributions*

The City is required to contribute at an actuarially determined rate, calculated to be 18.01% and 20.13% for the years ended June 30, 2013 and 2012, respectively.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 2.00% to 11.54% of regular compensation paid by the City, depending on the bargaining unit, and individual benefit multiplier selection. 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

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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terminated plan member. The balance in the member deposit fund at June 30, 2013 and 2012 is \$30,220,355 and \$27,983,591, respectively.

### *Annual Pension Costs*

The annual employer contribution for the year ended June 30, 2013 was \$8,135,843. The annual contribution was determined by the actuarial valuation at June 30, 2011, using the individual entry age cost method. Significant actuarial assumptions include: (a) 7.38% investment rate of return (7.50% for groups receiving annual post-retirement increases; 7.25% for groups participating in the 13<sup>th</sup> Check program), and (b) additional salary increases of 4.00% to 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 27 years.

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, 2011. Per the actuarial reports dated June 30, 2011 and 2010, all assumptions have remained consistent.

### *Funded Status and Funding Progress*

As of June 30, 2012, the most recent actuarial valuation date, the plan was 78% funded on an actuarial basis. The actuarial accrued liability for benefits was \$448,864,237 and the actuarial value of the assets was \$349,486,629, resulting in an underfunding of \$99,377,608. The covered payroll (annual payroll for active employees covered by the Plan) was \$46,167,958 for 2012.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of the 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:

<i>June 30,</i>	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	-	-	-

### **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.



# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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- Investments in real estate are limited to 10% of the System's assets.
- Investments in state and local government obligations are limited to 5% of the System's assets.
- Investments in foreign securities are limited to 20% of the System's assets.

The following was the Board's adopted asset allocation policy as of June 30, 2013:

<i>Asset Class</i>	<u>Target Allocation</u>	
	2013	2012
U.S. equity	40%	45%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Private equity	5	5
Commodities	5	-

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 conduct business only 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, 2013, 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

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

mitigate the relative over- or under-performance of the fixed income composite as a result of changing interest rates.

As of June 30, 2013, the System had the following debt investments and maturities.

	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	More Than 10 Years
Asset-backed securities	\$ 3,424,569	\$ -	\$ 1,512,417	\$ -	\$ 1,912,152
Commercial mortgage-backed	4,787,648	-	494,940	-	4,292,708
Corporate bonds	10,715,649	1,257,772	4,292,372	1,587,060	3,578,445
Fixed income commingled funds	54,379,123	-	54,379,123	-	-
Government agencies	498,264	-	498,264	-	-
Government bonds	11,800,335	-	4,944,662	-	6,855,673
Government mortgage-backed	13,580,925	-	193,639	847,647	12,539,639
Government issued commercial mortgage-backed	505,744	-	505,744	-	-
Municipal/provincial bonds	890,229	-	-	74,861	815,368
Non-government backed CMOs	2,533,772	-	79,085	839,955	1,614,732
Short-term investment funds	4,227,700	4,227,700	-	-	-
<b>Total</b>	<b>\$ 107,343,958</b>	<b>\$ 5,485,472</b>	<b>\$ 66,900,246</b>	<b>\$ 3,349,523</b>	<b>\$ 31,608,717</b>

As of June 30, 2012, the System had the following debt 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	7,851,496	1,790,898	-	2,287,352	3,773,246
Fixed income commingled funds	56,994,487	-	56,994,487	-	-
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	-	-	-
<b>Total</b>	<b>\$ 106,306,597</b>	<b>\$ 6,227,195</b>	<b>\$ 63,273,338</b>	<b>\$ 4,984,533</b>	<b>\$ 31,821,531</b>

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

### *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. At June 30, 2013 and 2012, the System held debt investments with the following credit ratings:

<i>June 30, 2013</i>	S&P Rating										
	AAA	AA	A	BBB	BB	B	CCC	CC	D	AGY/TSY	Not Rated
Asset-backed securities	\$ 1,512,417	\$ 597,258	\$ 168,068	\$ 199,162	\$ -	\$ 144,519	\$ 702,095	\$ 101,049	\$ -	\$ -	\$ -
Commercial mortgage backed	2,400,349	-	-	-	-	-	-	-	-	-	2,387,300
Corporate bonds	-	1,751,823	4,464,219	3,100,000	655,220	243,760	-	-	-	-	500,627
Fixed income commingled funds	-	-	54,379,123	-	-	-	-	-	-	-	-
Government agencies	-	498,264	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	88,500	-	-	-	-	-	11,711,835	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	13,580,925	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	505,744	-
Municipal/provincial bonds	-	-	-	-	74,861	-	-	-	-	-	815,368
Non-government backed CMOs	-	79,084	155,752	-	-	-	553,753	-	240,952	-	1,504,231
Short-term investment funds	-	-	4,227,700	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 3,912,766</b>	<b>\$ 2,926,429</b>	<b>\$ 63,394,862</b>	<b>\$ 3,387,662</b>	<b>\$ 730,081</b>	<b>\$ 388,279</b>	<b>\$ 1,255,848</b>	<b>\$ 101,049</b>	<b>\$ 240,952</b>	<b>\$ 25,798,504</b>	<b>\$ 5,207,526</b>

<i>June 30, 2012</i>	S&P Rating										
	AAA	AA	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	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 5,757,173</b>	<b>\$ 2,555,537</b>	<b>\$ 63,144,672</b>	<b>\$ 3,036,613</b>	<b>\$ 897,629</b>	<b>\$ 1,082,098</b>	<b>\$ 1,167,737</b>	<b>\$ 138,147</b>	<b>\$ 125,536</b>	<b>\$ 24,977,577</b>	<b>\$ 3,423,878</b>

Assets listed in the AGY/TSY column above represent U.S. government-backed securities and, therefore, have no credit risk.

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

### *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, 2013 and 2012, no single holding within this portfolio represented more than 5% of the total fund.

### *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 \$56,167,669 and \$48,772,216 as of June 30, 2013 and 2012, respectively.

As of June 30, 2013, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
U.S. Dollars	\$ 61,317,698	\$ 56,649,969	\$ 88,500	\$ 4,579,229

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

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

### *Securities Lending Risk*

As of June 30, 2013, the System had the following securities lending investments:

<i>Investment Type</i>	Market Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral Received From Borrowers	Market Value of Loaned Securities Collateralized by Non-Cash Collateral	Market Value of Non-Cash Collateral
U.S. agencies	\$ 299,236	\$ 306,634	\$ -	\$ -
U.S. corporate fixed	940,301	962,725	-	-
U.S. equities	11,624,674	11,935,163	-	-
U.S. government fixed	9,913,991	10,105,060	-	-
<b>Total</b>	<b>\$ 22,778,202</b>	<b>\$ 23,309,582</b>	<b>\$ -</b>	<b>\$ -</b>

# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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

<i>Investment Type</i>	Market Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral Received From Borrowers	Market Value of Loaned Securities Collateralized by Non-Cash Collateral	Market Value of Non-Cash Collateral
U.S. agencies	\$ 1,016,280	\$ 1,032,960	\$ -	\$ -
U.S. corporate fixed	1,832,461	1,848,386	-	-
U.S. equities	7,254,910	7,281,610	-	-
U.S. government fixed	11,118,785	11,316,281	-	-
<b>Total</b>	<b>\$ 21,222,436</b>	<b>\$ 21,479,237</b>	<b>\$ -</b>	<b>\$ -</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. 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.

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 also may 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.

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# City of Grand Rapids General Retirement System

## Notes to Financial Statements

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### 4. Capital Funding Commitment

At June 30, 2013, the Plan had the following approximate amounts (in millions) outstanding on initial commitments of \$10.0 million with Adams Street Partners and \$5.0 million with FLAG Capital. At June 30, 2012, the Plan had the following approximate amounts (in millions) outstanding on initial commitments of \$5.0 million each with Adams Street Partners and FLAG Capital.

	2013		2012	
Adam Street Partners (2010)	\$	3.2	\$	3.7
FLAG Capital		4.2		4.4
Adams Street Partners (2013)		5.0		-

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## Required Supplementary Information

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# City of Grand Rapids General Retirement System

## Schedule of Funding Progress

<i>Actuarial Valuation Date</i>	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$ 391,693,895	\$ 368,873,096	\$ (22,820,799)	106%	\$ 52,426,527	0%
6/30/2008	398,766,770	376,984,359	(21,782,411)	106%	49,970,419	0%
6/30/2009	381,136,182	391,339,300	10,203,118	97%	51,808,141	20%
6/30/2010	366,543,009	435,893,490	69,350,481	84%	49,336,606	141%
6/30/2011	360,280,315	445,762,361	85,482,046	81%	49,040,518	174%
6/30/2012	349,486,629	448,864,237	99,377,608	78%	46,167,958	215%



# City of Grand Rapids General Retirement System

## Schedule of Employer Contributions

<i>Fiscal Year/Period Ended</i>	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, 2012, the latest actuarial valuation, follows:

Valuation date	June 30, 2012
Actuarial cost method	Individual entry age
Amortization method	Level percent, closed
Remaining amortization period	26 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.38%
Projected salary increases	4.0 - 8.0%
Includes inflation at 3.5% and cost of living adjustments	

\* 7.50% for groups receiving annual post-retirement increases,  
7.25% for groups participating in the 13<sup>th</sup> Check program



## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Grand Rapids General Retirement System (the System) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 10, 2013.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City of Grand Rapids General Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of This Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

October 10, 2013



Public Pension Coordinating Council

***Recognition Award for Funding  
2012***

Presented to

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

In recognition of meeting professional standards for  
plan funding 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)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator