City of Grand Rapids General Retirement System

Financial Statements and
Required Supplementary Information
Years Ended June 30, 2014 and 2013

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

City of Grand Rapids General Retirement System

Financial Statements and Required Supplementary Information
Years Ended June 30, 2014 and 2013

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 years ended June 30, 2014 and 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 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 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 audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Grand Rapids General Retirement System as of June 30, 2014 and 2013, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Required Supplementary Information, as listed in the table of contents, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 12, 2014 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

November 12, 2014

City of Grand Rapids General Retirement System
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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, 2014. 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 System 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, 2014:

	2014	2013
U.S. equity	**40%**	40%
Fixed income	**30**	30
Non-U.S. equity	**15**	15
Real estate	**5**	5
Commodities	**5**	5
Private equity	**5**	5

Investment Results

The System's performance consultant, Wilshire Associates, reported a market rate of return of 17.54% and 12.73% on retirement system assets for the years ended June 30, 2014 and 2013, respectively. Had the assets all been invested passively, the return would have been 17.15% and 11.72%, which means that the System's assets outperformed their benchmark by 0.39% and 1.01% for the years ended June 30, 2014 and 2013, respectively.

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

Using the Financial Statements

The System's financial report includes two financial statements: the Statements of Fiduciary Net Position (page 9) and the Statements of Changes in Fiduciary Net Position (page 10). 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 Fiduciary 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 Fiduciary 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 Required Supplementary Information 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 Fiduciary Net Position

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

				Change From Prior Year	
	2012	2013	2014	In Dollars	As %
Assets					
Cash and money market funds	$ 4,498,364	$ 4,248,397	$ 5,482,394	$ 1,233,997	29.0%
Investments					
Stocks, equity mutual funds, and partnerships	224,864,157	234,454,433	252,318,292	17,863,859	7.6%
Fixed Income	101,870,301	103,116,259	122,961,861	19,845,602	19.2%
Real estate	18,155,898	19,035,348	21,897,381	2,862,033	15.0%
Private equity partnerships	1,859,521	2,698,463	4,756,531	2,058,068	76.3%
Commodities	-	15,375,749	21,951,943	6,576,194	42.8%
Securities lending collateral	21,479,237	23,309,582	16,521,149	(6,788,433)	-29.1%
Total investments	368,229,114	397,989,834	440,407,157	42,417,323	10.7%
Receivables	1,442,524	1,187,083	1,254,442	67,359	5.7%
Total Assets	374,170,002	403,425,314	447,143,993	43,718,679	10.8%
Liabilities					
Administrative expenses and investment management fees payable	296,828	334,665	349,428	14,763	4.4%
Pending trades - purchases	1,165,540	69,031	1,467,878	1,398,847	2026.4%
Amounts due broker under securities lending agreement	21,479,237	23,309,582	16,521,149	(6,788,433)	-29.1%
Total Liabilities	22,941,605	23,713,278	18,338,455	(5,374,823)	-22.7%
Net Position Restricted for Pension Benefits	$ 351,228,397	$ 379,712,036	$ 428,805,538	$ 49,093,502	12.9%

The System participates in a securities lending program. The Northern Trust Company is the exclusive agent of the System. The agent fully indemnifies the System against borrower default in compliance with state statutes. At year-end, the market value of securities on loan was approximately $16.2 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 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 Fiduciary Net Position

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

				Change From Prior Year	
	2012	2013	2014	In Dollars	As %
Additions					
Contributions	$ 12,204,511	$ 12,069,185	$ 12,508,046	$ 438,861	3.6%
Net investment income	7,209,159	44,013,431	65,256,091	21,242,660	48.3%
Securities lending	26,503	29,514	60,163	30,649	103.8%
Total Additions	19,440,173	56,112,130	77,824,300	21,712,170	38.7%
Deductions					
Benefits	26,732,325	27,152,432	28,207,712	1,055,280	3.9%
Administrative expense	509,371	476,059	523,086	47,027	9.9%
Total Deductions	27,241,696	27,628,491	28,730,798	1,102,307	4.0%
Net Increase (Decrease)	(7,801,523)	28,483,639	49,093,502	20,609,863	72.4%
Net Position Restricted for Pension Benefits, beginning of year	359,029,920	351,228,397	379,712,036	28,483,639	8.1%
Net Position Restricted for Pension Benefits, end of year	$ 351,228,397	$ 379,712,036	$ 428,805,538	$ 49,093,502	12.9%

Other System Activities

The System voted to amend its asset allocation in May to further diversify the System's investments. Funding for new allocations to Master Limited Partnerships (MLPs) and Treasury Inflation Protected Securities (TIPS) is expected to occur toward the end of 2014 or in early 2015.

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

City of Grand Rapids General Retirement System

Statements of Fiduciary Net Position

June 30,	**2014**	2013
Assets		
Cash		
Cash and money market funds	**$ 5,482,394**	$ 4,248,397
Receivables		
Plan member contributions	**213,921**	218,221
Employer contributions	**530,166**	471,912
Interest and dividends	**510,355**	496,950
Total Receivables	**1,254,442**	1,187,083
Investments		
United States government obligations	**30,007,010**	26,385,269
State and municipal bonds	**741,296**	890,230
Corporate bonds and fixed income commingled funds	**81,113,939**	65,094,771
Common stocks and equity mutual funds	**252,318,292**	234,454,433
Real estate	**21,897,381**	19,035,348
Asset-backed securities	**11,099,616**	10,745,989
Commodities	**21,951,943**	15,375,749
Private equity	**4,756,531**	2,698,463
Investments held as collateral for securities lending:		
Core USA Fund	**16,521,149**	23,309,582
Total Investments	**440,407,157**	397,989,834
Total Assets	**447,143,993**	403,425,314
Liabilities		
Administrative expenses payable	**77,466**	74,857
Investment management fees payable	**271,962**	259,808
Pending trades - purchases	**1,467,878**	69,031
Amounts due broker under securities lending agreement	**16,521,149**	23,309,582
Total Liabilities	**18,338,455**	23,713,278
Net Position Restricted for Pension Benefits	**$ 428,805,538**	$ 379,712,036

See accompanying notes to financial statements.

City of Grand Rapids General Retirement System

Statements of Changes in Fiduciary Net Position

Year ended June 30,	**2014**	2013
Additions to Net Position		
Contributions		
Plan members	**$ 3,737,014**	$ 3,933,342
Employer	**8,771,032**	8,135,843
Total Contributions	**12,508,046**	12,069,185
Investment Income		
Interest and dividends	**4,896,376**	4,560,411
Net appreciation in fair value of investments	**61,437,480**	40,412,375
Less investment expense	**(1,077,765)**	(959,355)
Net investment income, less investment expense	**65,256,091**	44,013,431
Securities Lending Income		
Income	**81,904**	45,387
Expense	**(21,741)**	(15,873)
Net Securities Lending Income	**60,163**	29,514
Total Additions to Net position	**77,824,300**	56,112,130
Deductions From Net Position		
Benefits	**28,207,712**	27,152,432
Administrative expenses	**523,086**	476,059
Total Deductions From Net Position	**28,730,798**	27,628,491
Net Increase in Net Position	**49,093,502**	28,483,639
Net Position Restricted for Pension Benefits, beginning of year	**379,712,036**	351,228,397
Net Position Restricted for Pension Benefits, end of year	**$ 428,805,538**	$ 379,712,036

See accompanying notes to financial statements.

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. For private equity funds, commodities funds, real estate funds and fixed income commingled funds, values are based on net asset values provided by underlying investment managers and/or their administrators.

Use of Estimates

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

Risks and Uncertainties

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. For the System, this standard has been adopted for the year ended June 30, 2014.

Subsequent Events

Subsequent events have been evaluated by management through November 12, 2014, 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. Benefits are established or amended via collective bargaining between City and System members. Benefit provisions are outlined in the City's ordinance and administered by Trustees. Eligible members consist of 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 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 13th Check program.

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 7.1%; for members of the ECO I, II and III group, final average compensation shall be increased by 42.3%. 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, 2014 and 2013, the System's membership consisted of the following:

June 30,	**2014**	2013
Retirees and beneficiaries receiving pension benefits	**1,108**	1,091
Terminated plan members entitled to but not yet receiving benefits	**98**	83
Active plan members	**717**	786
Total	**1,923**	1,960

Contributions

The City is required by City ordinance to contribute at an actuarially determined rate, calculated to be 20.64% and 18.01% of covered payroll for the years ended June 30, 2014 and 2013, 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 terminated plan member. The balance in the member deposit fund at June 30, 2014 and 2013 was $32,310,028 and $30,220,355, respectively.

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 10% 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 global securities are limited to 20% of the System's assets.

The following was the Board's asset allocation policy for the years ended June 30, 2014 and 2013:

	Target Allocation	
Asset Class	**2014**	2013
U.S. equity	**40.0%**	40.0%
Fixed income	**30.0**	30.0
Non-U.S. equity	**15.0**	15.0
Real estate	**5.0**	5.0
Private equity	**5.0**	5.0
Commodities	**5.0**	5.0

The Board of Trustees voted at the Joint Board meeting of May 21, 2014 to further diversify the asset allocation per recommendation from the Asset Allocation Analysis provided by the System's investment consultant, Wilshire Associates. The portfolio was restructured to include allocations to Master Limited Partnerships (MLPs) and Treasury Inflation Protected Securities (TIPS) exposures.

For the year ended June 30, 2014 and 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.75% and 12.99%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2014 and 2013, no cash or investments 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.

As of June 30, 2014, 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	$ 3,280,766	$ -	$ 1,001,520	$ 408,655	$ 1,870,591
Commercial mortgage-backed	5,676,222	-	503,195	-	5,173,027
Corporate bonds	19,336,487	131,608	10,759,078	4,082,051	4,363,750
Fixed income commingled funds	61,777,451	-	61,777,451	-	-
Government agencies	-	-	-	-	-
Government bonds	14,189,610	-	5,713,000	2,374,312	6,102,298
Government mortgage-backed	15,304,818	10	44,202	1,236,441	14,024,165
Government issued commercial mortgage-backed	512,582	-	512,582	-	-
Municipal/provincial bonds	741,296	-	455,183	68,699	217,414
Non-government backed CMOs	2,142,628	-	366,818	321,702	1,454,108
Securities lending collateral pool	16,521,149	16,521,149	-	-	-
Short-term investment funds	5,482,394	5,482,394	-	-	-
Total	$ 144,965,403	$ 22,135,161	$ 81,133,029	$ 8,491,860	$ 33,205,353

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
Securities lending collateral pool	23,309,582	23,309,582	-	-	-
Short-term investment funds	4,227,700	4,227,700	-	-	-
Total	$ 130,653,540	$ 28,795,054	$ 66,900,246	$ 3,349,523	$ 31,608,717

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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, 2014 and 2013, the System held debt investments with the following credit ratings:

	S&P Rating										
June 30, 2014	AAA	AA	A	BBB	BB	B	CCC	CC	D	AGY/TSY	Not Rated
Asset-backed securities	$ 1,506,003	$ 421,643	$ 79,943	$ 131,980	$ -	$ 31,949	$ 621,211	$ 61,570	$ -	$ -	$ 426,467
Commercial mortgage backed	2,569,174	-	-	-	-	-	-	-	-	-	3,107,048
Corporate bonds	-	3,062,904	9,694,056	5,053,412	1,026,840	21,375	-	-	-	-	477,900
Fixed income commingled funds	-	-	61,777,451	-	-	-	-	-	-	-	-
Government agencies	-	-	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	97,125	-	-	-	-	-	14,092,485	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	15,304,818	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	512,582	-
Municipal/provincial bonds	-	196,523	258,660	-	68,699	-	-	-	-	-	217,414
Non-government backed CMOs	-	56,345	27,420	-	83,171	-	535,510	-	87,261	-	1,352,921
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	16,521,149
Short-term investment funds	-	-	5,482,394	-	-	-	-	-	-	-	-
Total	$ 4,075,177	$ 3,737,415	$ 77,319,924	$ 5,282,517	$1,178,710	$ 53,324	$1,156,721	$ 61,570	$ 87,261	$29,909,885	$ 22,102,899

	S&P Rating										
June 30, 2013	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
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	23,309,582
Short-term investment funds	-	-	4,227,700	-	-	-	-	-	-	-	-
Total	$ 3,912,766	$ 2,926,429	$ 63,394,862	$ 3,387,662	$ 730,081	$ 388,279	$1,255,848	$ 101,049	$ 240,952	$25,798,504	$ 28,517,108

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

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, 2014 and 2013, 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 $65,176,449 and $56,167,669 as of June 30, 2014 and 2013, respectively.

As of June 30, 2014, the System had the following foreign investments:

	Total	Preferred and Common Stock	Government Bonds	Corporate Bonds	Partnerships
Fair Value in U.S. Dollars	$ 75,737,561	$ 65,176,449	$ 97,125	$ 9,836,458	$ 627,529

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

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

Securities Lending Risk

As of June 30, 2014, the System had the following investment types on loan for securities lending purposes, and received the following cash collateral for those loans:

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Non-Cash Collateral	Fair Value of Non-Cash Collateral
U.S. agencies	$ -	$ -	$ -	$ -
U.S. corporate fixed	3,170,662	3,241,061	-	-
U.S. equities	-	-	-	-
U.S. government fixed	13,022,112	13,280,088	-	-
Total	$ 16,192,774	$ 16,521,149	$ -	$ -

As of June 30, 2013, the System had the following investment types on loan for securities lending purposes, and received the following cash collateral for those loans:

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Non-Cash Collateral	Fair 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	-	-
Total	$ 22,778,202	$ 23,309,582	$ -	$ -

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; effective February 22, 2013, the System only receives cash collateral. 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.

4. Capital Funding Commitment

At June 30, 2014 and 2013, the System 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.

	2014	2013
Adam Street Partners (2010)	**$ 2.3**	$ 3.2
FLAG Capital	**3.5**	4.2
Adams Street Partners (2013)	**4.4**	5.0

5. Net Pension Liability

Net Pension Liability

The components of the net pension liability at June 30, 2014, were as follows:

Total pension liability	$ 460,585,801
Plan fiduciary net position	(428,805,538)
Net Pension Liability	$ 31,780,263
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.10%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% - approximate
Salary increases	3.5% to 7.7% including inflation
Investment rate of return	7.39% (7.50% for groups receiving annual postretirement increases, 7.25% for groups participating in the 13th Check program

Mortality rates were based on the 1983 Group Annuity Male and Female Mortality Tables set back three years for males and two years for females.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation of June 30, 2014 (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	7.25%
Non-U.S. Equity	7.45
Fixed Income	4.10
Real Estate	5.40
Private Equity	10.40
Commodities	4.25
Cash	1.55

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on System investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. There was no change in assumptions from prior year. Therefore, the long-term expected rate of return on System investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability, calculated using a single discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher:

1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
$ 83,788,727	$ 31,780,263	$ (12,190,281)

Required Supplementary Information

City of Grand Rapids General Retirement System

Required Supplementary Information
Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

Fiscal year ended June 30,	**2014**	2013
Total Pension Liability		
Service cost	**$ 3,433,720**	$ 3,621,485
Interest on the total pension liability	**33,264,550**	32,782,407
Changes in benefit terms	**-**	-
Difference between expected and actual experience of the total pension liability	**(3,819,080)**	(2,201,374)
Assumption changes	**-**	-
Benefit payments	**(28,055,439)**	(27,037,516)
Refunds	**(152,273)**	(114,916)
Net Change in Total Pension Liability	**4,671,478**	7,050,086
Total Pension Liability, beginning	**455,914,323**	448,864,237
Total Pension Liability, ending (a)	**$ 460,585,801**	$ 455,914,323
Plan Fiduciary Net Position		
Contributions – employer	**$ 8,771,032**	$ 8,135,843
Contributions – member	**3,737,014**	3,933,341
Pension plan net investment income	**65,337,996**	44,058,818
Benefit payments	**(28,055,439)**	(27,037,516)
Refunds	**(152,273)**	(114,916)
Pension plan administrative expense	**(523,086)**	(476,059)
Other	**(21,741)**	(15,873)
Net Change in Plan Fiduciary Net Position	**49,093,503**	28,483,638
Plan Fiduciary Net Position, beginning	**379,712,035**	351,228,397
Plan Fiduciary Net Position, ending (b)	**$ 428,805,538**	$ 379,712,035
Net Pension Liability - Ending (a) - (b)	**$ 31,780,263**	$ 76,202,288
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	**93.10%**	83.29%
Covered Employee Payroll	**$ 40,510,955**	$ 43,783,450
Net Pension Liability as a Percentage of Covered Employee Payroll	**78.45%**	174.04%

City of Grand Rapids General Retirement System

Required Supplementary Information
Schedule of Contributions

Fiscal year ended June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	$ 8,771,032	$ 8,771,032	$ -	$ 40,510,955	21.65%
2013	8,135,843	8,135,843	-	43,783,450	18.58%
2012	8,949,239	8,949,239	-	46,167,958	19.38%
2011	6,162,363	6,162,363	-	49,040,518	12.57%
2010	4,708,020	4,708,020	-	49,336,606	9.54%
2009	3,833,164	3,833,164	-	51,808,141	7.40%
2008	6,008,558	6,008,558	-	49,970,419	12.02%
2007	8,733,871	8,733,871	-	52,426,527	16.66%
2006	8,596,017	8,596,017	-	52,838,163	16.27%
2005	8,632,941	8,632,941	-	53,451,352	16.15%

Valuation Date

Actuarially determined contribution rates are calculated as of June 30, which is one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.5% --approximate; no explicit price inflation assumption is used in this valuation.
Salary Increases	3.5% to 7.7% including inflation.
Investment Rate of Return	7.39% (7.50% for groups receiving annual post-retirement increases, 7.25% for groups participating in the 13th Check program).
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2010 valuation pursuant to an experience study of the period 2004-2009.
Mortality	1983 Group Annuity Male and Female Mortality Tables set back three years for males and two years for females.

Other Information

There were no benefit changes during the year.

City of Grand Rapids General Retirement System

Required Supplementary Information
Schedule of Investment Returns
Annual Money-Weighted Rate of Return, Net of Investment Expense
Last Five Fiscal Years

2014	2013	2012	2011	2010
17.75%	12.99%	2.19%	26.17%	0.16%

City of Grand Rapids General Retirement System

Required Supplementary Information
Schedule of the Employers' Net Pension Liability

Fiscal year ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2013	$ 455,914,323	$ 379,712,035	$ 76,202,288	83.29%	$ 43,783,450	174.04%
2014	460,585,801	428,805,538	31,780,263	93.10%	40,510,955	78.45%

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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 years ended June 30, 2014 and 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 November 12, 2014.

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.

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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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 12, 2014