

City of Grand Rapids General Retirement System

**Financial Statements and
Required Supplementary Information
Years Ended June 30, 2015 and 2014**

City of Grand Rapids General Retirement System

Financial Statements and Required Supplementary Information
Years Ended June 30, 2015 and 2014

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, 2015 and 2014, 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.

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, 2015 and 2014, 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* during the year ended June 30, 2014. 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 January 13, 2016 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

January 13, 2016

**City of Grand Rapids General Retirement System
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

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, 2015. 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, 2015:

	2015	2014
U.S. equity	22.5%	40.0%
Fixed income	25.0	30.0
Non-U.S. equity	22.5	15.0
Real estate	5.0	5.0
Commodities	5.0	5.0
Private equity	5.0	5.0
Treasury Inflation Protected Securities	10.0	-
Master Limited Partnerships	5.0	-

Investment Results

The System's performance consultant, Wilshire Associates, reported a market rate of return of 2.67% and 17.54% on retirement system assets for the years ended June 30, 2015 and 2014, respectively. Had the assets all been invested passively, the return would have been 1.54% and 17.15%, which means that the System's assets outperformed their benchmark by 1.13% and 0.39% for the years ended June 30, 2015 and 2014, 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 10) and the Statements of Changes in Fiduciary Net Position (page 11). 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:

	2013	2014	2015	Change From Prior Year	
				In Dollars	As %
Assets					
Cash and money market funds	\$ 4,248,397	\$ 5,482,394	\$ 5,784,639	\$ 302,245	5.5%
Investments					
Stocks, equity mutual funds, and partnerships	234,454,433	252,318,292	261,054,376	8,736,084	3.5%
Fixed income	103,116,259	122,961,861	103,127,139	(19,834,722)	-16.1%
Real estate	19,035,348	21,897,381	18,040,247	(3,857,134)	-17.6%
Private equity partnerships	2,698,463	4,756,531	7,632,179	2,875,648	60.5%
Commodities	15,375,749	21,951,943	16,859,122	(5,092,821)	-23.2%
Securities lending collateral	23,309,582	16,521,149	25,377,034	8,855,885	53.6%
Total investments	397,989,834	440,407,157	432,090,097	(8,317,060)	-1.9%
Receivables	1,187,083	1,254,442	3,144,229	1,889,787	150.6%
Total Assets	403,425,314	447,143,993	441,018,965	(6,125,028)	-1.4%
Liabilities					
Administrative expenses and investment management fees payable	334,665	349,428	335,618	(13,810)	-4.0%
Pending trades - purchases	69,031	1,467,878	642,308	(825,570)	-56.2%
Amounts due broker under securities lending agreement	23,309,582	16,521,149	25,377,034	8,855,885	53.6%
Total Liabilities	23,713,278	18,338,455	26,354,960	8,016,505	43.7%
Net Position Restricted for Pension Benefits	\$ 379,712,036	\$ 428,805,538	\$ 414,664,005	\$ (14,141,533)	-3.3%

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. As of June 30, 2015, the market value of securities on loan was approximately \$24.9 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:

	2013	2014	2015	In Dollars	Change From Prior Year As %
Additions					
Contributions	\$ 12,069,185	\$ 12,508,046	\$ 14,801,086	\$ 2,293,040	18.3%
Net investment income	44,013,431	65,256,091	11,438,747	(53,817,344)	-82.5%
Securities lending	29,514	60,163	39,933	(20,230)	-33.6%
Total Additions	56,112,130	77,824,300	26,279,766	(51,544,534)	-66.2%
Deductions					
Benefits	27,152,432	28,207,712	39,853,430	11,645,718	41.3%
Administrative expense	476,059	523,086	567,869	44,783	8.6%
Total Deductions	27,628,491	28,730,798	40,421,299	11,690,501	40.7%
Net Increase (Decrease)	28,483,639	49,093,502	(14,141,533)	(63,235,035)	-128.8%
Net Position Restricted for Pension Benefits, beginning of year	351,228,397	379,712,036	428,805,538	49,093,502	12.9%
Net Position Restricted for Pension Benefits, end of year	\$ 379,712,036	\$ 428,805,538	\$ 414,664,005	\$ (14,141,533)	-3.3%

The increase in benefit payments between 2014 and 2015 was primarily due to the issuance of a 13th Check in January 2015, as provided by City ordinance.

Other System Activities

The System amended its asset allocation to further diversify the System's investments. Funding for a new allocation to Master Limited Partnerships (MLPs) occurred in February 2015 and March 2015. Funding for a new allocation to Treasury Inflation Protected Securities (TIPS) occurred in April 2015. The System also made an additional \$6.5 million private equity commitment with Adams Street Partners, which was approved in May 2015. Capital calls began in September 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

<i>June 30,</i>	2015	2014
Assets		
Cash		
Cash and money market funds	\$ 5,784,639	\$ 5,482,394
Receivables		
Plan member contributions	214,942	213,921
Employer contributions	716,694	530,166
Interest and dividends	496,339	510,355
Pending investment trades - sales	1,716,254	-
Total Receivables	3,144,229	1,254,442
Investments		
United States government obligations	21,448,247	30,007,010
State and municipal bonds	684,614	741,296
Corporate bonds and fixed income commingled funds	72,403,272	81,113,939
Common stocks and equity mutual funds	261,054,376	252,318,292
Asset backed securities	8,591,006	11,099,616
Private equity funds	7,632,179	4,756,531
Commodities funds	16,859,122	21,951,943
Real estate funds	18,040,247	21,897,381
Investments held as collateral for securities lending:		
Core USA Fund	25,377,034	16,521,149
Total Investments	432,090,097	440,407,157
Total Assets	441,018,965	447,143,993
Liabilities		
Administrative expense payable	71,223	77,466
Investment management fees payable	264,395	271,962
Pending investment trades - purchases	642,308	1,467,878
Amounts due broker under securities lending agreement	25,377,034	16,521,149
Total Liabilities	26,354,960	18,338,455
Net Position Restricted for Pension Benefits	\$ 414,664,005	\$ 428,805,538

See accompanying notes to financial statements.

City of Grand Rapids General Retirement System

Statements of Changes in Fiduciary Net Position

<i>Year ended June 30,</i>	2015	2014
Additions to Net Position		
Contributions		
Plan members	\$ 3,473,382	\$ 3,737,014
Employer	11,327,704	8,771,032
Total Contributions	14,801,086	12,508,046
Investment Income		
Interest and dividends	4,706,713	4,896,376
Net appreciation in fair value of investments	7,712,237	61,437,480
Net investment income	12,418,950	66,333,856
Less investment expense	(980,203)	(1,077,765)
Net Investment Income, less investment expense	11,438,747	65,256,091
Securities Lending Income		
Income	61,410	81,904
Expense	(21,477)	(21,741)
Net Securities Lending Income	39,933	60,163
Total Additions to Net Position	26,279,766	77,824,300
Deductions From Net Position		
Benefits	39,853,430	28,207,712
Administrative expenses	567,869	523,086
Total Deductions From Net Position	40,421,299	28,730,798
Net Increase (Decrease) in Net Position	(14,141,533)	49,093,502
Net Position Restricted for Pensions, beginning of year	428,805,538	379,712,036
Net Position Restricted for Pensions, end of year	\$ 414,664,005	\$ 428,805,538

See accompanying notes to financial statements.

City of Grand Rapids General Retirement System

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 estimated 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. 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 position available for benefits at the date of the financial statements. Significant estimates are made for investments, the actuarial present value of accumulated plan benefits as of the benefit information date, the changes in net position 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

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 was adopted during the year ended June 30, 2014.

Subsequent Events

Subsequent events have been evaluated by management through January 13, 2016, 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 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 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

City of Grand Rapids General Retirement System

Notes to Financial Statements

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 Technician and Latent Print Examiner group, final average compensation shall be increased by 7.2%; for members of the ECO I, II and III group, final average compensation shall be increased by 42.2%. 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, 2015 and 2014, the System's membership consisted of the following:

<u>June 30,</u>	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries receiving pension benefits	1,126	1,108
Terminated plan members entitled to but not yet receiving benefits	102	98
Active plan members	653	717
Total	1,881	1,923

Contributions

The City is required by City ordinance to contribute at an actuarially determined rate, calculated to be 28.25% and 20.64% of covered payroll for the years ended June 30, 2015 and 2014, respectively.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 3.00% 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, 2015 and 2014 was \$33,786,514 and \$32,310,028, respectively.

City of Grand Rapids General Retirement System

Notes to Financial Statements

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, 2015 and 2014:

Asset Class	Target Allocation	
	2015	2014
U.S. equity	22.5%	40.0%
Fixed income	25.0	30.0
Non-U.S. equity	22.5	15.0
Real estate	5.0	5.0
Master Limited Partnerships	5.0	-
Treasury Inflation Protected Securities	10.0	-
Private equity	5.0	5.0
Commodities	5.0	5.0

The System amended its asset allocation to further diversify the System's investments. Funding for a new allocation to Master Limited Partnerships (MLPs) occurred in February 2015 and March 2015. Funding for a new allocation to Treasury Inflation Protected Securities (TIPS) occurred in April 2015. The Board of Trustees voted at the May 20, 2015 Joint Board meeting to further diversify the asset allocation per the private equity pacing model recommendation provided by the System's investment consultant, Wilshire Associates. The portfolio was restructured to commit an additional \$6.5 million to the Adam Street Partners 2015 Global Fund, which began in September 2015.

For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.80% and 17.75%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Grand Rapids General Retirement System

Notes to Financial Statements

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, 2015 and 2014, no deposits 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, 2015, 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	\$ 4,136,854	\$ -	\$ 1,625,972	\$ 739,683	\$ 1,771,199
Commercial mortgage-backed	3,493,445	-	-	-	3,493,445
Corporate bonds	20,378,556	1,055,987	10,946,722	3,838,754	4,537,093
Fixed income commingled funds	52,024,716	-	-	52,024,716	-
Government bonds	8,686,036	-	4,108,941	508,555	4,068,540
Government mortgage-backed	12,762,211	-	383,469	508,147	11,870,595
Municipal/provincial bonds	684,614	428,101	-	64,674	191,839
Non-government backed CMOs	960,706	-	435,015	60,876	464,815
Securities lending collateral pool	25,377,034	25,377,034	-	-	-
Short-term investment funds	5,784,639	5,784,639	-	-	-
Total	\$ 134,288,811	\$ 32,645,761	\$ 17,500,119	\$ 57,745,405	\$ 26,397,526

City of Grand Rapids General Retirement System

Notes to Financial Statements

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 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

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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, 2015 and 2014, the System held debt investments with the following credit ratings:

June 30, 2015	S&P Rating										
	AAA	AA	A	BBB	BB	B	CCC	CC	D	AGY/TSY	Not Rated
Asset-backed securities	\$ 2,660,027	\$ 333,930	\$ 48,516	\$ 86,169	\$ -	\$ -	\$ 547,343	\$ 38,209	\$ -	\$ -	\$ 422,661
Commercial mortgage backed	449,833	-	-	-	-	-	-	-	-	-	3,043,613
Corporate bonds	-	3,041,162	9,932,011	5,915,780	836,231	204,000	-	-	-	-	449,373
Fixed income commingled funds	-	-	52,024,716	-	-	-	-	-	-	-	-
Government bonds	-	-	-	94,125	-	-	-	-	-	8,591,911	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	12,762,211	-
Municipal/provincial bonds	-	175,168	252,932	-	64,674	-	-	-	-	-	191,839
Non-government backed CMOs	-	37,009	-	22,916	-	-	60,877	-	61,089	-	778,815
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	25,377,034
Short-term investment funds	-	-	5,784,639	-	-	-	-	-	-	-	-
Total	\$ 3,109,860	\$ 3,587,269	\$ 68,042,814	\$ 6,118,990	\$ 900,905	\$ 204,000	\$ 608,220	\$ 38,209	\$ 61,089	\$ 21,354,122	\$ 30,263,335

June 30, 2014	S&P Rating										
	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

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, 2015 and 2014, 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 \$64,052,940 and \$65,176,449 as of June 30, 2015 and 2014, respectively.

As of June 30, 2015, the System had the following foreign investments:

	Preferred and Total Common Stock	Government Bonds	Corporate Bonds	Asset Backed Securities	Partnerships	
Fair Value in U.S. Dollars						
U.S. Dollars	\$ 104,491,399	\$ 91,671,485	\$ 94,125	\$ 10,669,135	\$ 500,375	\$ 1,556,279

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

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

Securities Lending Risk

As of June 30, 2015, 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. corporate fixed	\$ 3,115,473	\$ 3,187,044	\$ -	\$ -
U.S. equities	13,227,733	13,496,888	-	-
U.S. government fixed	8,523,648	8,693,102	-	-
Total	\$ 24,866,854	\$ 25,377,034	\$ -	\$ -

City of Grand Rapids General Retirement System

Notes to Financial Statements

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:

<i>Investment Type</i>	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. 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	\$ -	\$ -

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 USA Collateral Section in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The System receives cash, letters of credit or government securities as collateral for loans of 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, 2015 and 2014, 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. The Board of Trustees voted at the Joint Board meeting on May 20, 2015 to

City of Grand Rapids General Retirement System

Notes to Financial Statements

commit an additional \$6.5 million to Adams Street Global 2015 Fund, beginning in September 2015.

	2015	2014
Adam Street Partners (2010)	\$ 1.6	\$ 2.3
FLAG Capital	2.3	3.5
Adams Street Partners (2013)	3.4	4.4

5. Net Pension Liability

Net Pension Liability

The components of the net pension liability at June 30, 2015 and 2014, were as follows:

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Total pension liability	\$ 500,205,954	\$ 460,585,801
Plan fiduciary net position	414,664,005	428,805,538
 Net Pension Liability	 \$ 85,541,949	 \$ 31,780,263
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 82.90%	 93.10%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Inflation	2.75% - approximate	3.5% - approximate
Salary increases	3.5% to 7.7% including inflation	3.5% to 7.7% including inflation
Investment rate of return	7.25%	7.39%

As of June 30, 2015, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Tables projected to 2019 using the MP-2014 mortality improvement scale. As of June 30, 2014, 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

City of Grand Rapids General Retirement System

Notes to Financial Statements

adding expected inflation. Based on information provided by the System's Investment Advisor, capital market expectations for each major asset class that is included in the plan's current asset allocation as of June 30, 2015 were used; the best estimates for the long-term expected return are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
U.S. Stocks	6.00%
Global Stocks	6.22
Private Markets	10.98
Core Bonds	1.78
LT Core Bonds	2.60
TIPS	1.38
U.S. RE Securities	4.80
Commodities	3.13
MLP	8.95

Discount Rate

A single discount rate of 7.25% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on System investments of 7.25%. 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. 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 7.25%, as well as what the net pension liability would be if it were calculated using a single discount rate that is 100 basis points lower or 100 basis points higher:

	Current Single Discount		
	1% Decrease 6.25%	Rate Assumption 7.25%	1% Increase 8.25%
Total pension liability	\$ 556,069,630	\$ 500,205,954	\$ 453,045,225
Plan net position	414,664,005	414,664,005	414,664,005
Net pension liability	141,405,625	85,541,949	38,381,220

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

<i>Fiscal year ended June 30,</i>	2015	2014	2013
Total Pension Liability			
Service cost	\$ 3,146,480	\$ 3,433,720	\$ 3,621,485
Interest on the total pension liability	32,061,844	33,264,550	32,782,407
Changes in benefit terms	20,882	-	-
Difference between expected and actual experience of the total pension liability	14,510,874	(3,819,080)	(2,201,374)
Assumption changes	29,733,503	-	-
Benefit payments	(39,570,343)	(28,055,439)	(27,037,516)
Refunds	(283,087)	(152,273)	(114,916)
Net Change in Total Pension Liability	39,620,153	4,671,478	7,050,086
Total Pension Liability, beginning	460,585,801	455,914,323	448,864,237
Total Pension Liability, ending (a)	\$ 500,205,954	\$ 460,585,801	\$ 455,914,323
Plan Fiduciary Net Position			
Contributions - employer	\$ 11,327,704	\$ 8,771,032	\$ 8,135,843
Contributions - member	3,473,382	3,737,014	3,933,342
Pension plan net investment income	11,500,157	65,337,995	44,058,818
Benefit payments	(39,570,343)	(28,055,439)	(27,037,516)
Refunds	(283,087)	(152,273)	(114,916)
Pension plan administrative expense	(567,869)	(523,086)	(476,059)
Other	(21,477)	(21,741)	(15,873)
Net Change in Plan Fiduciary Net Position	(14,141,533)	49,093,502	28,483,639
Plan Fiduciary Net Position, beginning	428,805,538	379,712,036	351,228,397
Plan Fiduciary Net Position, ending (b)	\$ 414,664,005	\$ 428,805,538	\$ 379,712,036
Net Pension Liability - Ending (a) - (b)	\$ 85,541,949	\$ 31,780,263	\$ 76,202,287
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.90%	93.10%	83.29%
Covered Employee Payroll	\$ 38,492,586	\$ 40,510,955	\$ 43,783,450
Net Pension Liability as a Percentage of Covered Employee Payroll	222.23%	78.45%	174.04%

City of Grand Rapids General Retirement System

Required Supplementary Information Schedule of Contributions

<i>Fiscal year ended June 30,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 11,327,704	\$ 11,327,704	- \$ 38,492,586		29.43%
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%

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	23 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	2.75% - approximate; no explicit price inflation assumption is used in this valuation.
Salary Increases	3.5% to 7.7% including inflation.
Investment Rate of Return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Healthy Annuitant Mortality Table projected to 2019 using MP-2014 mortality improvement scale.

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 Six Fiscal Years

2015	2014	2013	2012	2011	2010
2.80%	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

<i>Fiscal year ended</i> <i>June 30,</i>	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	\$ 379,712,036	\$ 76,202,287	83.29%	\$ 43,783,450	174.04%
2014	460,585,801	428,805,538	31,780,263	93.10%	40,510,955	78.45%
2015	500,205,954	414,664,005	85,541,949	82.90%	38,492,586	222.23%



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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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 13, 2016.

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

BDO USA, LLP

January 13, 2016