

# **City of Grand Rapids Police and Fire Retirement System**

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**Financial Report  
with Supplemental Information  
December 31, 2006**

# **City of Grand Rapids Police and Fire Retirement System**

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## Independent Auditor's Report

To the Board of Trustees  
City of Grand Rapids Police and Fire Retirement System  
Grand Rapids, Michigan

We have audited the accompanying statement of plan net assets of the City of Grand Rapids Police and Fire Retirement System (the "System"), a component unit of the City of Grand Rapids, as of December 31, 2006 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2005 financials, which were audited by other auditors whose report dated March 8, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Rapids Police and Fire Retirement System as of December 31, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

February 28, 2007

# **City of Grand Rapids Police and Fire Retirement System**

## **Management's Discussion and Analysis**

This section of the City of Grand Rapids Police and Fire Retirement System (the System) annual financial statements presents a discussion and analysis of the financial performance of the System for the fiscal year ended December 31, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements. This discussion and analysis is designed to focus on current activities, resulting changes and current known facts. The financial statements and this discussion are the responsibility of management.

### **Overall Fund Structure and Objectives**

The System exists to pay benefits to its retirees and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Generally speaking, benefits paid out in any given year are significantly greater than the contributions received. The excess of benefits over contributions must be funded through investment income.

### **Asset Allocation**

The System has established asset allocation policies, which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to its members. The following is a summary of the System's asset allocation policy as of December 31, 2006:

U.S. equity - 55%  
Fixed income - 30%  
Non-U.S. equity - 15%

### **Investment Results**

The System's performance consultant, Wilshire Associates, reported a market rate of return of 13.01% on retirement system assets for the year ended December 31, 2006. Had the assets all been invested passively, the return would have been 13.61%, which means that the System's assets underperformed their benchmark by 0.60%.

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 remain strong due to a prudent investment program, cost controls, and strategic planning.

### **Using the Financial Statements**

The System's financial report includes two financial statements: the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

# **City of Grand Rapids Police and Fire Retirement System**

## **Management's Discussion and Analysis (Continued)**

The Statement of Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Analysis of Funding Progress and the Schedule of Employer Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

### **Statement of Plan Net Assets**

System total assets as of December 31, 2006 were \$402,792,375 and were mostly comprised of cash, investments, interest and dividends, and contributions due from members. Of this amount, \$32,181,743 represents collateral held by brokers under the System's securities lending program. Total assets increased \$27,646,060 from the prior year, primarily due to favorable investment returns and a higher value of securities out on loan on December 31, 2006.

Total liabilities as of December 31, 2006 were \$49,288,048 and were comprised of administrative expenses and investment management fees due after the close of the fiscal year and pending trades (purchases). Securities on loan under the System's securities lending program represent \$32,181,743 of the liability amount. Total liabilities increased \$1,167,620 from the prior year mainly due to a higher amount owed to brokers under the System's securities lending program.

Because of the number of securities out on loan under the System's lending program can fluctuate greatly depending on demand and available securities, the assets and liabilities can be expected to vary widely from one year to the next, or not much at all, depending on how many securities are out on loan on December 31 of each year. The increase in assets caused by securities lending will always be offset by a corresponding liability of the same amount, so that the two amounts cancel each other out. Securities lending income is used to offset the System's custody and benefit payment expenses.

### **Statement of Changes in Plan Net Assets**

Revenue sources include member contributions, earnings on investments, and securities lending income. Contributions, investment income, and securities lending income for the fiscal year ended December 31, 2006 totaled \$43,388,411.

Total member contributions decreased from the previous year by \$154,006, primarily due to a negotiated decrease in member contribution rates because the plan's funding level increased. Investment income increased from the previous year by \$23,435,352, mostly due to favorable market conditions. Securities lending income increased from the previous year by \$10,539.

# **City of Grand Rapids Police and Fire Retirement System**

## **Management's Discussion and Analysis (Continued)**

The primary expenses of the System include the payment of pension benefits to retirees and beneficiaries, refunds of contributions and interest to former members, and the cost of administering the System. Total deductions, including investment management fees, for the fiscal year ended December 31, 2006 were \$18,082,070; of this, payments for retirement benefits and refunds to former members were \$16,468,726, an increase of \$220,820 over the previous year.

Differences in benefit payments can occur for various reasons, including fluctuations in the number of retirees and beneficiaries, and the number of active members who terminate employment and withdraw their contributions during the year.

### **Other System Activities**

One investment manager was terminated during the year. The assets that were invested in a pooled international equity fund were liquidated and transferred to a separately managed international equity account at Neuberger Berman.

The System hired Plante & Moran, PLLC to audit the System's financial statements.

### **Contacting System Financial Management**

This financial report is designed to provide the Board of Trustees, our membership, taxpayers and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Retirement System's office, 233 E. Fulton, Suite 216, Grand Rapids, Michigan, 49503.

# City of Grand Rapids Police and Fire Retirement System

## Statement of Plan Net Assets December 31, 2006 (with comparative totals for December 31, 2005)

	2006	2005
<b>Assets</b>		
Cash and money market funds	\$ 12,426,629	\$ 3,616,151
Investments at fair value:		
United States government obligations	52,168,989	59,154,465
Asset-backed securities	26,528,380	21,425,851
State and municipal bonds	459,421	488,437
Corporate bonds	31,242,156	30,830,745
Common stocks and equity mutual funds	226,214,138	201,367,264
Partnerships	19,795,682	17,111,165
Investments held as collateral for securities lending	<u>32,181,743</u>	<u>26,931,545</u>
Total investments	<u>388,590,509</u>	<u>357,309,472</u>
Total cash and investments	401,017,138	360,925,623
Receivables:		
Plan member contributions	164,707	158,935
Interest and dividends	1,140,217	1,100,248
Pending trades - Sales	<u>470,313</u>	<u>12,961,509</u>
Total receivables	<u>1,775,237</u>	<u>14,220,692</u>
Total assets	402,792,375	375,146,315
<b>Liabilities</b>		
Administrative expenses payable	71,031	54,781
Investment management fees payable	361,364	185,378
Pending trades - Purchases	16,673,910	20,948,724
Amounts due broker under securities lending agreement	<u>32,181,743</u>	<u>26,931,545</u>
Total liabilities	<u>49,288,048</u>	<u>48,120,428</u>
<b>Net Assets Held in Trust for Pension Benefits</b>		
(A schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 353,504,327</u>	<u>\$ 327,025,887</u>

\* The Notes to the Financial Statements are an integral part of this statement

# City of Grand Rapids Police and Fire Retirement System

## Statement of Changes in Plan Net Assets Year Ended December 31, 2006 (with comparative totals for the year ended December 31, 2005)

	2006	2005
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 35,134,072	\$ 13,120,734
Interest and dividends	7,381,084	5,882,548
Investment expense	<u>(1,172,099)</u>	<u>(1,095,577)</u>
Net investment income	41,343,057	17,907,705
Contributions:		
Employer	-	192,259
Plan members	<u>1,998,066</u>	<u>2,152,072</u>
Total contributions	1,998,066	2,344,331
Securities lending:		
Income	72,719	56,511
Expense	<u>(25,431)</u>	<u>(19,762)</u>
Net securities lending income	<u>47,288</u>	<u>36,749</u>
Total additions	43,388,411	20,288,785
<b>Deductions</b>		
Benefits	16,468,726	16,247,906
Administrative expenses	<u>441,245</u>	<u>404,333</u>
Total deductions	<u>16,909,971</u>	<u>16,652,239</u>
<b>Net Increase in Net Assets Held in Trust for Pension Benefits</b>	26,478,440	3,636,546
<b>Net Assets Held in Trust for Pension Benefits - Beginning of year</b>	<u>327,025,887</u>	<u>323,389,341</u>
<b>Net Assets Held in Trust for Pension Benefits - End of year</b>	<u><u>\$ 353,504,327</u></u>	<u><u>\$ 327,025,887</u></u>

\* The Notes to the Financial Statements are an integral part of this statement



# **City of Grand Rapids Police and Fire Retirement System**

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## **Notes to Financial Statements December 31, 2006**

### **Note I - Summary of Significant Accounting Policies**

#### **Basis of Accounting**

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

#### **Methods Used to Value Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

#### **Use of Estimates**

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

#### **Risks and Uncertainties**

Plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as interest rate, market and credit. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in the value of investments, it is possible that changes in these estimates, assumptions, and risks in the near term would be material to the financial statements.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements December 31, 2006

### Note 2 - Plan Description and Contribution Information

#### Plan Description

The System is a single-employer, defined benefit pension plan, which provides retirement and disability benefits to plan members and beneficiaries. Eligible members consist of all uniformed police and fire staff who are regularly employed by the City of Grand Rapids. Benefit provisions are established and amended by City ordinance. The plan is administered by the System's board of trustees and the financial statements of the System are also included in the basic financial statements of the City as a pension trust fund. The System is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity as required by law.

#### 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 10 years of service. Fire members may elect to retire after attaining age 55 and completing 10 years of service or upon attainment of their credited service cap; police members may elect to retire after attaining age 50 and completing 10 years of service. The yearly allowance, payable monthly for life to the retired member, equals 2.7% of the member's final average compensation times years and months of credited service, up to the applicable allowance cap. For purposes of benefit calculations, the final average compensation is based on the member's three highest consecutive compensated calendar years of credited service, provided no such rates of salary occur in a calendar year after the calendar year in which the employee attains the number of years of credited service which, when multiplied by the applicable benefit multiplier, equals the allowance cap, increased by 11.9% for fire members and 11.4% for police members.

At December 31, 2006, the System's membership consisted of the following:

Retirees and beneficiaries receiving pension benefits	603
Terminated plan members entitled to but not yet receiving benefits	15
Active plan members	562
	<hr/>
Total	1,180

# **City of Grand Rapids Police and Fire Retirement System**

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## **Notes to Financial Statements December 31, 2006**

### **Note 2 - Plan Description and Contribution Information (Continued)**

#### **Contributions**

The City is required to contribute at an actuarially determined rate, which was calculated to be 1.08% for the period January 1, 2005 through June 30, 2005. No employer contribution was required for the period of July 1, 2005 through December 31, 2006. Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 3.20% to 8.86% of regular compensation paid by the City, depending on job classification and funding level of the System. These contributions are 100% vested. Plan members retain the right upon termination to withdraw their contributions plus regular interest, as defined by the System, in lieu of any pension rights they may have.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest, upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2006 is \$25,384,340.

### **Note 3 - Deposits and Investments**

The investments of the System are designed to comply with requirements of the State of Michigan, which has numerous investment limitations depending on the type of investment. The investment policy adopted by the board is in accordance with state law and has authorized investments according to Michigan Public Act 314 of 1965, as amended. The most significant requirements as they impact the System are:

1. Investments in stock are limited to 70% of the System's assets and investments in the stock of any one corporation are limited to 5% of the System's assets.
2. Equity investments in real estate are limited to 5% of the System's assets.
3. Investment in state and local government obligations is limited to 5% of the System's assets.
4. Investments in foreign securities are limited to 20% of the System's assets.

# City of Grand Rapids Police and Fire Retirement System

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## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counter-party to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. This portfolio will minimize custodial credit risk by limiting investments to those permitted by Act 485 of the Public Acts of 1996, as amended (Michigan Compiled Laws 38.1132 et seq), which include: a) United States Treasury and Agency; b) Mortgages (Collateral and CMOs); c) Corporate Bonds (industrial, finance, asset-backed, utilities, telephone, and Yankee); d) Derivatives (futures, swaps, option contracts on the S&P 500 Index and U.S. Interest Rates, and futures and option contracts on U.S. Treasury and Agency securities); e) American Depository Receipts; f) Non-Dollar Bonds; g) Emerging Market Debt; h) Cash equivalent investments (including repurchase agreements); i) Short-term investment funds; j) International Depository Receipts; k) Global Depository Receipts; l) Convertible Bonds; m) Open and closed-end country funds; and n) Warrants.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996, as amended (Michigan Compiled Laws 38.1132 et seq); support the overall investment policies of the Plan; understand and accept their designated "role" within the Plan's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines of this document and/or any additional written instructions that amend the Investment Policy Statement.

As of December 31, 2006, \$24,270 of cash equivalents was exposed to custodial credit risk because it was an uninsured and uncollateralized deposit.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This portfolio structures its fixed income allocation to be approximately neutral in duration and interest rate risk to that of the benchmark (Lehman Aggregate Index). This should mitigate the relative over- or under-performance of the fixed income composite as a result of changing interest rates.

As of December 31, 2006, the System had the following investments and maturities.

	Fair Value	Less than 1			More than 10 Years	Maturity Not Determined
		Year	1-6 Years	6-10 Years		
Asset-backed securities	\$ 12,797,153	\$ -	\$ 1,815,679	\$ 376,395	\$ 10,605,079	\$ -
Commercial mortgage backed	2,335,870	-	-	-	2,335,870	-
Corporate bonds	31,242,156	1,109,380	8,931,614	8,048,854	8,401,991	4,750,317
Government agencies	4,148,986	228,982	2,393,301	1,296,465	230,238	-
Government bonds	11,030,248	617,294	2,113,812	183,577	8,005,565	110,000
Government mortgage backed	33,795,519	-	74,996	3,355,137	12,993,313	17,372,073
Index-linked government bonds	3,194,236	-	1,220,572	329,663	1,644,001	-
Municipal/Provincial bonds	459,421	-	54,604	-	404,817	-
Non-government backed CMOs	11,395,358	-	-	-	11,395,358	-
Short-term bills and notes	125,852	125,852	-	-	-	-
Short-term investment funds	12,238,007	12,238,007	-	-	-	-
Total	<u>\$ 122,762,806</u>	<u>\$ 14,319,515</u>	<u>\$ 16,604,578</u>	<u>\$ 13,590,091</u>	<u>\$ 56,016,232</u>	<u>\$ 22,232,390</u>

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The fixed income portfolio invests in both investment grade bonds as well as high yield bonds. However, the overall credit rating for the composite is not to be below an "A" rating. As of December 31, 2006, the System held investments with the following credit ratings:

Fair Market Value by Investment Type:

	S&P Rating				
	AAA	AA	A	BBB	BB
Asset-backed securities	\$ 11,921,810	\$ -	\$ -	\$ 310,264	\$ 172,710
Commercial mortgage backed	2,238,788	-	-	-	-
Corporate bonds	953,850	2,903,876	6,376,554	9,313,052	2,170,546
Government agencies	3,394,212	-	-	-	-
Government bonds	9,703,751	-	-	503,102	-
Government mortgage backed	-	-	-	-	-
Index-linked government bonds	1,741,641	-	-	-	-
Municipal/Provincial bonds	231,021	-	-	228,400	-
Non-government backed CMOs	8,382,061	-	-	-	-
Short-term bills & notes	-	-	-	-	-
Short-term investment funds	-	-	-	-	-
<b>Total</b>	<b>\$ 38,567,134</b>	<b>\$ 2,903,876</b>	<b>\$ 6,376,554</b>	<b>\$ 10,354,818</b>	<b>\$ 2,343,256</b>

	S&P Rating			
	B	CCC	AGY/TSY	Not Rated
Asset-backed securities	\$ -	\$ -	\$ -	\$ 392,369
Commercial mortgage backed	-	-	-	97,081
Corporate bonds	2,203,693	721,225	-	6,599,359
Government agencies	-	-	118,036	636,738
Government bonds	-	-	519,708	303,687
Government mortgage backed	-	-	33,795,519	-
Index-linked government bonds	-	-	1,452,596	-
Municipal/Provincial bonds	-	-	-	-
Non-government backed CMOs	-	-	-	3,013,297
Short-term bills & notes	-	-	125,852	-
Short-term investment funds	-	-	-	12,238,007
<b>Total</b>	<b>\$ 2,203,693</b>	<b>\$ 721,225</b>	<b>\$ 36,011,711</b>	<b>\$ 23,280,538</b>

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### 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 December 31, 2006, 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. As of December 31, 2006, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
Australian	\$ 3,080,211	\$ 2,716,445	\$ -	\$ 363,766
Brazil	3,281,097	2,901,608	-	379,489
British Pound Sterling	11,602,256	11,116,292	-	485,964
Canadian	6,225,276	6,090,716	-	134,560
Cayman Islands	99,885	-	-	99,885
Euro	17,869,673	17,869,673	-	-
France	911,512	667,058	-	244,454
Germany	9,954	-	-	9,954
Hong Kong	835,994	602,685	-	233,309
Iceland	172,834	-	-	172,834
Italy	169,399	-	-	169,399
Japan	7,403,047	7,403,047	-	-
Latin American Region	599,179	599,179	-	-
Mexico	852,919	-	480,474	372,445
Netherlands	550,267	-	-	550,267
Norway	415,398	415,398	-	-
Republic of Korea	338,272	-	-	338,272
Russian Federation	129,003	-	22,628	106,375
South Korea	1,294,571	1,294,571	-	-
Spain	77,684	-	-	77,684
Sweden	898,190	898,190	-	-
Swiss Franc	823,256	823,256	-	-
Total	<u>\$ 57,639,877</u>	<u>\$ 53,398,118</u>	<u>\$ 503,102</u>	<u>\$ 3,738,657</u>

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Securities Lending Risk

As of December 31, 2006, the System had the following investments exposed to securities lending risk:

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral		Fair Value of Loaned Securities Collateralized by Noncash Collateral		Noncash Collateral
	Cash Collateral	Cash Collateral	Noncash Collateral	Noncash Collateral	
Global Equities	\$ 4,759,830	\$ 5,005,131	\$ 153,722	\$ 160,739	
U.S. agencies	2,306,535	2,362,658	-	-	
U.S. corporate fixed	5,966,042	6,122,212	783,993	802,319	
U.S. equities	4,693,776	4,825,780	411,885	423,201	
U.S. government fixed	13,538,719	13,865,962	374,532	383,869	
Total	<u>\$ 31,264,902</u>	<u>\$ 32,181,743</u>	<u>\$ 1,724,132</u>	<u>\$ 1,770,128</u>	

Public Act 314 of 1965, as amended, permits, and Trustees have implemented, a securities lending program whereby the System, through 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 Northern Trust Company to utilize the Core U.S.A. Collateral Section in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The System receives cash, letters of credit, or government securities as collateral for loans of its securities to approved borrowers. Initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and the collateral are denominated in different currencies.

At fiscal year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Northern Trust Company shall indemnify the System if it is unable to recover borrowed securities and distributions made during the term of the loan or loans with respect to those securities as a result of 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.



# **City of Grand Rapids Police and Fire Retirement System**

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**Notes to Financial Statements  
December 31, 2006**

## **Note 3 - Deposits and Investments (Continued)**

All securities loans can be terminated on demand by either the System or 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, Northern Trust Company shall terminate all outstanding loans of the System's securities and shall make no further loans. The System does not have the ability to pledge or sell collateral securities without a borrower default. There are no restrictions on the amount of the loans that can be made. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

## **Required Supplemental Information**

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# City of Grand Rapids Police and Fire Retirement System

## Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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Police and Fire Retirement System:

6/30/2001	\$ 305,328,814	\$ 249,233,407	\$ (56,095,407)	123%	\$ 31,772,454	- %
6/30/2002	287,125,896	265,750,488	(21,375,408)	108%	32,508,791	- %
6/30/2003*	270,208,638	276,876,491	6,667,853	98%	33,543,566	20%
12/31/2003*	301,845,219	276,065,502	(25,779,717)	109%	33,101,130	- %
12/31/2004	315,021,806	285,041,937	(29,979,869)	111%	32,543,780	- %
12/31/2005	325,044,112	284,262,073	(40,782,039)	114%	33,407,682	- %

\* The Police and Fire Retirement System changed year ends in 2003 from a 6/30 year end to a 12/31 year end.

# City of Grand Rapids Police and Fire Retirement System

## Required Supplemental Information Schedule of Employer Contributions

<u>Fiscal Year/ Period Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/2001	\$ -	N/A
6/30/2002	-	N/A
6/30/2003	-	N/A
12/31/2003	525,966	100
12/31/2004	727,754	100
12/31/2005	192,259	100
12/31/2006	-	N/A

The Police and Fire Retirement System changed year ends in 2003 from a 6/30 year end to a 12/31 year end.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Valuation date	December 31, 2005
Actuarial cost method	Individual entry age
Amortization method	Level percent, open
Remaining amortization period	15 years
Asset valuation method	2-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.0%-21.0%

\* Includes inflation at 4% and cost of living adjustment