

City of Grand Rapids Police and Fire Retirement System

**Financial Report
with Supplemental Information
December 31, 2008**

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, 2008 and 2007 and the related statement of changes in plan net assets for the years 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.

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 System as of December 31, 2008 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

March 13, 2009

City of Grand Rapids Police and Fire Retirement System

Management's Discussion and Analysis

This section of the City of Grand Rapids Police & 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, 2008. 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, 2008:

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 -31.68% on retirement system assets for the year ended December 31, 2008. Had the assets all been invested passively, the return would have been -27.21%, which means that the System's assets underperformed their benchmark by 4.47%.

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. Despite the recent market turmoil and severe losses in the stock market, we believe that the market will recover, over time, and the System will recover its recent losses.

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

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

Statement of Plan Net Assets

System total assets as of December 31, 2008 were \$240,777,649 and were mostly comprised of cash, investments, interest and dividends, and contributions due from members. Of this amount, \$8,796,435 represents collateral held by brokers under the System's securities lending program. Total assets decreased \$129,271,529 from the prior year, primarily due to unfavorable investment returns and a lower value of securities out on loan on December 31, 2008.

Total liabilities as of December 31, 2008 were \$11,710,671 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 \$8,796,435 of the liability amount. Total liabilities decreased \$4,363,112 from the prior year mainly due to a lower amount owed to broker(s) under the System's securities lending program, offset by a higher value of pending trades (purchases) on December 31, 2008.

As noted above, 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 \$8.6 million.

When a security is placed on loan, the System receives cash collateral in an amount not less than 102% of the market value of the security loaned. Loans are marked-to-market daily. Cash collateral is invested by the agent in a separately managed account. Borrowers receive a daily interest rebate on the cash collateral provided to the agent. Earnings from securities lending represent the difference, or spread, between the earnings on the cash collateral and the interest rebate paid to the borrower. Securities lending income is used to offset the System's custody and benefit payment expenses.

The market value of the collateral invested is carried as an asset and the amount of collateral repayable to the borrower upon return of the securities from loan is carried as a liability in the financial statements. The increase in assets caused by securities lending will always be offset by a corresponding liability of the same amount, so that the two amounts cancel each other out.

Because of the number of securities out on loan under the System's lending program can fluctuate greatly depending on demand and available securities, the assets and liabilities can be

City of Grand Rapids Police and Fire Retirement System

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.

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, 2008 totaled \$(107,231,802).

Total member contributions decreased from the previous year by \$178,850, primarily due to a negotiated decrease in member contribution rates because the plan's funding level increased. Investment income decreased from the previous year by \$124,898,500, mostly due to extremely unfavorable market conditions. Securities lending income increased from the previous year by \$30,542.

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, 2008 were \$18,629,991; of this, payments for retirement benefits and refunds to former members were \$17,149,142, an increase of \$350,034 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

Due to the Lehman Brothers bankruptcy and resulting instability of the credit markets, The Northern Trust Company declared a collateral deficiency in the securities lending collateral pool in which the System participates. This collateral deficiency declaration resulted in a liability being posted against the System's cash account. It is expected that most of this liability will be reduced, over time, as the credit markets stabilize and return to normal conditions. The System opted to enter into The Northern Trust Company's staged withdrawal program, whereby amounts available for securities lending were systematically reduced from mid-October through the end of 2008. This action limited the System's securities lending exposure in the event of any further collateral deficiency declarations.

Contacting System Financial Management

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

City of Grand Rapids Police and Fire Retirement System

Statement of Plan Net Assets December 31, 2008 (with comparative totals for December 31, 2007)

	2008	2007
Assets		
Cash and money market funds	\$ 6,240,608	\$ 7,414,146
Investments at fair value:		
United States government obligations	16,426,914	20,820,657
Asset-backed securities	14,127,791	18,498,824
State and municipal bonds	106,190	182,991
Corporate bonds	49,444,079	65,177,248
Common stocks and equity mutual funds	132,117,632	219,759,686
Partnerships	11,572,560	20,968,137
Investments held as collateral for securities lending	8,796,435	15,411,739
Collateral deficiency on securities lending agreement	(238,106)	-
Total investments	<u>232,353,495</u>	<u>360,819,282</u>
Total cash and investments	238,594,103	368,233,428
Receivables:		
Plan member contributions	79,091	73,418
Interest and dividends	635,967	696,977
Pending trades - Sales	<u>1,468,488</u>	<u>1,045,355</u>
Total receivables	<u>2,183,546</u>	<u>1,815,750</u>
Total assets	240,777,649	370,049,178
Liabilities		
Administrative expenses payable	71,441	65,651
Investment management fees payable	183,824	366,264
Pending trades - Purchases	2,658,971	230,129
Amounts due broker under securities lending agreement	<u>8,796,435</u>	<u>15,411,739</u>
Total liabilities	<u>11,710,671</u>	<u>16,073,783</u>
Net Assets Held in Trust for Pension Benefits		
(A schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 229,066,978</u>	<u>\$ 353,975,395</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, 2008 (with comparative totals for the year ended December 31, 2007)

	2008	2007
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ (113,943,825)	\$ 9,202,098
Interest and dividends	5,778,370	8,002,083
Investment expense	(953,376)	(1,424,512)
Net investment income	(109,118,831)	15,779,669
Contributions:		
Plan members	1,746,589	1,925,439
Securities lending:		
Income	212,727	169,032
Expense	(72,287)	(59,134)
Net securities lending income	140,440	109,898
Total additions	(107,231,802)	17,815,006
Deductions		
Benefits	17,149,142	16,799,108
Administrative expenses	527,473	544,830
Total deductions	17,676,615	17,343,938
Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	(124,908,417)	471,068
Net Assets Held in Trust for Pension Benefits - Beginning of year	353,975,395	353,504,327
Net Assets Held in Trust for Pension Benefits - End of year	\$ 229,066,978	\$ 353,975,395

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

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

Note I - Summary of Significant Accounting Policies

Basis of Accounting

The December 31, 2008 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, 2008

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. 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 credited 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 12.5% for fire members and 12.0% for police members.

At December 31, 2008, the System's membership consisted of the following:

Retirees and beneficiaries receiving pension benefits	606
Terminated plan members entitled to but not yet receiving benefits	27
Active plan members	535
	<hr/>
Total	1,168

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

Note 2 - Plan Description and Contribution Information (Continued)

Contributions

The City is required to contribute at an actuarially determined rate, which calculated no employer contribution for the period January 1, 2008 through December 31, 2008. 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 City Code, 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, 2008 is \$28,074,572.

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

Notes to Financial Statements December 31, 2008

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 Michigan Public Act 314 of 1965, as amended, which include: a) United States Treasury and Agency; b) Mortgages (Collateral and CMOs); c) Corporate Bonds (industrial, finance, asset-backed, utilities, telephone, and Yankee); d) Derivatives (futures, swaps, option contracts on the S&P 500 Index and U.S. Interest Rates, and futures and option contracts on U.S. Treasury and Agency securities); e) American Depository Receipts; f) Non-Dollar Bonds; g) Emerging Market Debt; h) Cash equivalent investments (including repurchase agreements); i) Short-term investment funds; j) International Depository Receipts; k) Global Depository Receipts; l) Convertible Bonds; m) Open and closed-end country funds; and n) Warrants.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Michigan Public Act 314 of 1965, as amended; support the overall investment policies of the 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, 2008, \$44,566 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, 2008

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, 2008 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	\$ 6,270,699	\$ -	\$ 2,607,218	\$ -	\$ 3,663,482	\$ -
Commercial mortgage backed	2,081,748	-	-	-	2,081,748	-
Corporate bonds	49,444,079	548,206	4,333,451	1,277,587	3,086,976	40,197,859
Government agencies	1,340,776	-	1,340,776	-	-	-
Government bonds	5,036,977	-	-	115,986	4,920,991	-
Government mortgage backed	10,049,161	-	346,153	1,912,591	7,790,417	-
Municipal/Provincial bonds	106,190	-	-	-	106,190	-
Non-government backed CMOs	5,775,344	-	-	-	5,775,344	-
Other Fixed Income	2,768	-	-	-	-	2,768
Short-term investment funds	2,759,706	-	-	-	-	2,759,706
Total	<u>\$ 82,867,448</u>	<u>\$ 548,206</u>	<u>\$ 8,627,598</u>	<u>\$ 3,306,164</u>	<u>\$ 27,425,148</u>	<u>\$ 42,960,333</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

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, 2008 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	\$ 5,579,237	\$ -	\$ 328,791	\$ -	\$ 108,800
Commercial mortgage backed	1,667,955	-	-	-	-
Corporate bonds	245,081	885,256	3,598,596	3,329,866	142,000
Government agencies	1,077,651	-	-	263,125	-
Government bonds	4,957,853	-	-	79,125	-
Government mortgage backed	-	-	-	-	-
Municipal/Provincial bonds	-	-	-	106,190	-
Non-government backed CMOs	2,949,420	-	274,534	-	-
Short-term investment funds	-	-	-	-	-
Total	\$ 16,477,197	\$ 885,256	\$ 4,201,921	\$ 3,778,306	\$ 250,800

	S&P Rating				
	B	CCC	D	AGY/TSY	Not Rated
Asset-backed securities	\$ -	\$ -	\$ -	\$ -	\$ 253,871
Commercial mortgage backed	-	-	-	-	413,793
Corporate bonds	59,504	130,500	115,764	-	40,937,513
Government agencies	-	-	-	-	-
Government bonds	-	-	-	-	-
Government mortgage backed	-	-	-	10,049,161	-
Municipal/Provincial bonds	-	-	-	-	-
Non-government backed CMOs	230,321	-	-	-	2,321,068
Other Fixed Income	-	-	-	-	2,768
Short-term investment funds	-	-	-	-	2,759,706
Total	\$ 289,825	\$ 130,500	\$ 115,764	\$ 10,049,161	\$ 46,688,719

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

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, 2008, 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, 2008, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds	Cash	Government Agencies
Australian	\$ 259,656	\$ -	\$ -	\$ 259,656	-	-
Brazil	1,110,647	883,722	-	226,925	-	-
British Pound Sterling	5,116,429	4,624,883	-	491,546	-	-
Canadian	2,109,949	2,109,949	-	-	-	-
Chile	234,144	234,144	-	-	-	-
China	361,035	361,035	-	-	-	-
Denmark	308,211	308,211	-	-	-	-
Euro	10,032,518	9,996,783	-	-	35,735	-
France	600,639	472,815	-	127,824	-	-
Germany	554,498	307,870	-	246,628	-	-
Hong Kong	819,714	604,529	-	215,185	-	-
India	245,850	245,850	-	-	-	-
Israel	425,391	425,391	-	-	-	-
Italy	249,755	-	-	249,755	-	-
Japan	5,258,016	5,258,016	-	-	-	-
Mexico	342,250	-	79,125	-	-	263,125
Norway	562,964	562,964	-	-	-	-
Panama	133,760	133,760	-	-	-	-
Republic of Korea	462,269	-	-	462,269	-	-
Singapore	286,962	286,962	-	-	-	-
Spain	78,051	-	-	78,051	-	-
Sweden	357,011	357,011	-	-	-	-
Swiss Franc	2,292,601	2,292,601	-	-	-	-
Total	\$ 32,202,320	\$ 29,466,496	\$ 79,125	\$ 2,357,839	\$ 35,735	\$ 263,125

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

Note 3 - Deposits and Investments (Continued)

Securities Lending Risk

As of December 31, 2008, the System had the following investments exposed to securities lending risk:

Investment Type	Fair Value of Loaned Securities Collateralized by	
	Cash Collateral	Cash Collateral
Global Equities	\$ 938,321	\$ 996,373
U.S. corporate fixed	281,072	284,113
U.S. equities	3,949,942	3,981,186
U.S. government fixed	3,436,588	3,534,763
Total	<u>\$ 8,605,923</u>	<u>\$ 8,796,435</u>

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. 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 September 18, 2008, the System had approximately \$31,000 in unsecured notes with Lehman Brothers under the securities lending agreement. Lehman Brothers has applied for bankruptcy. As of this date, the approximate net loss on the transaction is unknown as the case is now in bankruptcy court. The Northern Trust Company has agreed to make up a fraction of the losses after the completion of bankruptcy court.

During 2008, The Northern Trust Company declared a collateral deficiency in the securities lending collateral pool in which the System participates. This collateral deficiency declaration resulted in a liability being posted against the System's cash account of approximately \$240,000. It is expected that most of this liability will be reduced, over time, as the credit markets stabilize and return to normal conditions. The System opted to enter into The Northern Trust Company's staged withdrawal program, whereby amounts available for

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2008

Note 3 - Deposits and Investments (Continued)

securities lending were systematically reduced from mid-October through the end of 2008. This action limited the System's securities lending exposure in the event of any further collateral deficiency declarations.

The 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 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. 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

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:

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	- %
12/31/2006	350,154,501	292,906,422	(57,248,079)	120%	33,887,922	- %
12/31/2007	365,116,538	300,989,725	(64,126,813)	121%	32,857,305	- %
12/31/2008	279,087,131	310,236,119	31,148,988	90%	33,004,358	94%

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>
12/31/2003	525,966	100
12/31/2004	727,754	100
12/31/2005	192,259	100
12/31/2006	-	N/A
12/31/2007	-	N/A
12/31/2008	-	N/A

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2008, the latest actuarial valuation, follows:

Valuation date	December 31, 2008
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