

City of Grand Rapids Police and Fire Retirement System

**Financial Report
with Supplemental Information
December 31, 2010**

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") as of December 31, 2010 and 2009 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2010 and 2009 and the results of its operations for the years 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 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

Grand Rapids, Michigan
May 9, 2011

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's (the "System") annual financial statements presents a discussion and analysis of the financial performance of the System for the fiscal year ended December 31, 2010. 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, 2010:

	<u>2010</u>	<u>2009</u>
U.S. Equity	45%	50%
Fixed Income	30%	30%
Non-U.S. Equity	15%	15%
Real Estate	5%	5%
Private Markets	5%	0%

Investment Results

The System's performance consultant, Wilshire Associates, reported a market rate of return of 17.14% and 30.23% on retirement system assets for the years ended December 31, 2010 and 2009, respectively. Had the assets all been invested passively, the return would have been 13.71% and 24.08%, which means that the System's assets outperformed their benchmark by 3.43% for the year ended December 31, 2010 and 6.15% for the year ended December 31, 2009.

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

City of Grand Rapids Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

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.

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

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

	2008	2009	2010	Change from Prior Year	
				In Dollars	As %
Assets:					
Cash and money market funds	\$ 6,240,608	\$ 5,025,051	\$ 5,770,399	\$ 745,348	14.8%
Stocks, equity mutual funds, and partnerships	143,690,192	183,163,228	206,143,401	22,980,173	12.5%
Fixed Income	80,104,974	75,560,397	84,445,521	8,885,124	11.8%
Real Estate	-	14,590,715	16,161,003	1,570,288	10.8%
Private Equity Partnerships	-	-	408,827	408,827	100.0%
Securities Lending Collateral	8,796,435	17,755,844	18,806,611	1,050,767	5.9%
Securities Lending Liability	(238,106)	(41,373)	-	41,373	100.0%
Total cash and investments	238,594,103	296,053,862	331,735,762	35,681,900	12.1%
Receivables	2,183,546	1,579,530	1,534,743	(44,787)	-2.8%
Total assets	240,777,649	297,633,392	333,270,505	35,637,113	12.0%
Liabilities:					
Administrative expenses and investment management fees payable	255,265	299,175	335,639	36,464	12.2%
Pending trades - purchases	2,658,971	506,399	1,815,542	1,309,143	258.5%
Amounts due broker under securities lending agreement	8,796,435	17,755,844	18,806,611	1,050,767	5.9%
Total liabilities	11,710,671	18,561,418	20,957,792	2,396,374	12.9%
Net assets held in trust for pension benefits	\$ 229,066,978	\$ 279,071,974	\$ 312,312,713	\$ 33,240,739	11.9%

City of Grand Rapids Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

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 \$18.8 million.

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

The market value of the collateral invested is carried as an asset and the amount of collateral repayable to the borrower upon return of the securities from loan is carried as a liability in the financial statements. The increase in assets caused by securities lending will always 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 December 31 of each year.

Statement of Changes in Plan Net Assets

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

	2008	2009	2010	Change from Prior Year	
				In Dollars	As %
Additions:					
Contributions	\$ 1,746,589	\$ 1,602,503	\$ 5,658,696	\$ 4,056,193	253.1%
Net investment income (loss)	(109,118,831)	66,075,280	46,205,886	(19,869,394)	-30.1%
Securities Lending	140,440	56,975	32,717	(24,258)	-42.6%
Total additions	(107,231,802)	67,734,758	51,897,299	(15,837,459)	-23.4%
Deductions:					
Benefits	17,149,142	17,225,453	18,114,193	888,740	5.2%
Administrative expense	527,473	504,309	542,367	38,058	7.5%
Total deductions	17,676,615	17,729,762	18,656,560	926,798	5.2%
Net increase (decrease)	(124,908,417)	50,004,996	33,240,739	(16,764,257)	-33.5%
Net assets held in trust for pension benefits:					
Beginning of year	353,975,395	229,066,978	279,071,974	50,004,996	21.8%
End of year	\$ 229,066,978	\$ 279,071,974	\$ 312,312,713	\$ 33,240,739	11.9%

City of Grand Rapids Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

Other System Activities

Due to the Lehman Brothers bankruptcy and resulting instability of the credit markets in 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. 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 2008 through mid-February 2009. This action limited the System's securities lending exposure in the event of any further deficiency declarations.

In September 2009, Trustees voted to re-enter the Securities Lending program fully. In December 2009, The Northern Trust Company issued a reverse collateral deficiency, thus reducing the collateral deficiency amount to \$47,371. In March 2010 Northern Trust issued a second reverse collateral deficiency to eliminate the remaining collateral deficiency amount.

The System changed its investment structure slightly by adding a 5% allocation to Private Equity. An initial commitment of \$5 million was made with Adams Street Partners. The remaining Private Equity allocation will be funded gradually over a period of a few years, by reducing the System's U.S. Equity exposure from 50% to 45%.

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, 2010

(with comparative totals for December 31, 2009)

	<u>2010</u>	<u>2009</u>
Assets		
Cash and investments:		
Cash and money market funds	\$ 5,770,399	\$ 5,025,051
United States government obligations	18,193,578	14,917,619
State and municipal bonds	86,795	93,715
Corporate bonds	54,917,447	49,481,348
Common stocks and equity mutual funds	206,143,401	183,163,228
Real estate	16,161,003	14,590,715
Asset-backed securities	11,247,701	11,067,715
Private equity	408,827	-
Investments held as collateral for securities lending	18,806,611	17,755,844
Collateral deficiency on securities lending agreement	-	(41,373)
Total cash and investments	<u>331,735,762</u>	<u>296,053,862</u>
Receivables:		
Plan member contributions	98,770	202,917
Employer contributions	754,913	-
Interest and dividends	656,387	618,334
Pending trades - Sales	24,673	758,279
Total receivables	<u>1,534,743</u>	<u>1,579,530</u>
Total assets	<u>333,270,505</u>	<u>297,633,392</u>
Liabilities		
Administrative expenses payable	72,427	61,362
Investment management fees payable	263,212	237,813
Pending trades - Purchases	1,815,542	506,399
Amounts due broker under securities lending agreement	18,806,611	17,755,844
Total liabilities	<u>20,957,792</u>	<u>18,561,418</u>
Net Assets Held in Trust for Pension Benefits		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 312,312,713</u>	<u>\$ 279,071,974</u>

City of Grand Rapids Police and Fire Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2010 (with comparative totals for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Additions to Net Assets		
Contributions:		
Plan members	\$ 1,948,909	\$ 1,602,503
Employer	3,709,787	-
	<u>5,658,696</u>	<u>1,602,503</u>
Total contributions		
Investment income:		
Interest and dividends	4,035,006	4,142,144
Net appreciation in fair value of investments	43,165,341	62,750,164
Investment expense	<u>(994,461)</u>	<u>(817,028)</u>
Net investment income	46,205,886	66,075,280
Securities lending:		
Income	50,308	79,883
Expense	<u>(17,591)</u>	<u>(22,908)</u>
Net securities lending income	<u>32,717</u>	<u>56,975</u>
Total additions - Net	51,897,299	67,734,758
Deductions from Net Assets		
Benefits	18,114,193	17,225,453
Administrative expenses	<u>542,367</u>	<u>504,309</u>
Total deductions	<u>18,656,560</u>	<u>17,729,762</u>
Net Increase in Net Assets Held in Trust for Pension Benefits	33,240,739	50,004,996
Net Assets Held in Trust for Pension Benefits		
Beginning of year	<u>279,071,974</u>	<u>229,066,978</u>
End of year	<u>\$ 312,312,713</u>	<u>\$ 279,071,974</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note I - Summary of Significant Accounting Policies

Basis of Accounting

The December 31, 2010 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, Michigan (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 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.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

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 state 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 (2.8% for Police members, Police Chief, Deputy Police Chief and the Fire Chief, retiring on or after June 30, 2010). 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 12.7% for fire members and 12.4% for police members.

At December 31, 2009 and 2008, the System's membership consisted of the following:

	<u>2009</u>	<u>2008</u>
Retirees and beneficiaries receiving pension benefits	614	606
Terminated plan members entitled to but not yet receiving benefits	27	27
Active plan members	<u>506</u>	<u>535</u>
Total	<u>1,147</u>	<u>1,168</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

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 0.00% for the period January 1, 2010 through June 30, 2010 and 20.96% for the period July 1, 2010 through December 31, 2010. Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 4.00% to 10.90% of regular compensation paid by the City, depending on Bargaining Unit 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, 2010 and 2009 is \$30,862,646 and \$28,693,136, respectively.

Annual Pension Costs

The annual employer contribution for the year ended December 31, 2010 was \$3,709,787. The annual contribution was determined by the actuarial valuation at December 31, 2009 and 2008, using the individual entry age cost method. Significant actuarial assumptions include (a) a 7.5% investment rate of return, and (b) additional salary increases of 4.0% - 21.0% per year, due to inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period and include an inflation component of 4.0%. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years.

Funded Status and Funding Progress

As of December 31, 2009 and 2008, the most recent actuarial valuation dates, the plan was 96% and 112% funded on an actuarial basis, respectively. The actuarial accrued liability for benefits was \$348,250,068 and \$310,236,119, respectively, and the actuarial value of the assets was \$334,247,051 and \$346,472,441, respectively, resulting in an underfunding of \$14,003,017 at December 31, 2009 and an overfunding of \$36,236,322 at December 31, 2008. The covered payroll (annual payroll for active employees covered by the plan) was \$33,490,487 and \$33,004,358 for 2009 and 2008, respectively.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Plan Description and Contribution Information (Continued)

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-year trend information as of December 31 is as follows:

	2009	2008	2007
Annual required contributions	\$ -	\$ -	\$ -
Percentage of ARC contributed	N/A	N/A	N/A
Net pension obligation	\$ -	\$ -	\$ -

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. Investments in real estate are limited to 5% 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 foreign securities are limited to 20% of the System's assets.

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

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

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 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 December 31, 2010, \$1,266 of cash equivalents was exposed to custodial credit risk because it was an uninsured and uncollateralized deposit.

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 December 31, 2010, the System had the following investments and maturities:

	Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 6,509,415	\$ 133,798	\$ 2,597,038	\$ 985,648	\$ 2,792,931	\$ -
Commercial mortgage backed	4,710,712	115,959	1,440,563	619,933	2,534,257	-
Corporate bonds	25,819,091	1,091,099	11,314,519	6,846,019	6,567,454	-
Government bonds	11,755,633	142,718	2,496,363	2,273,911	6,842,641	-
Government mortgage backed	30,681,556	985,648	14,175,597	5,702,209	9,818,102	-
Municipal/Provincial bonds	86,795	-	-	-	86,795	-
Non-government backed CMOs	4,168,728	-	-	1,424,691	2,744,037	-
Other fixed income	2,881,125	156,098	1,734,919	744,811	245,297	-
Short-term investment funds	2,518,453	2,513,993	4,460	-	-	-
Total	\$ 89,131,508	\$ 5,139,313	\$ 33,763,459	\$ 18,597,222	\$ 31,631,514	\$ -

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

As of December 31, 2009, the System had the following investments and maturities:

	Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity Not Determined
Asset-backed securities	\$ 5,696,536	\$ 607,518	\$ 2,311,509	\$ 89,103	\$ 2,688,406	\$ -
Commercial mortgage backed	3,961,743	664,220	943,678	105,303	2,248,542	-
Corporate bonds	24,188,336	3,266,274	7,810,462	6,854,277	6,257,323	-
Government agencies	2,047,455	205,249	1,283,289	481,965	76,952	-
Government bonds	8,153,779	(218,707)	(16,200)	1,834,127	6,554,559	-
Government mortgage backed	25,870,173	259,208	12,579,558	6,911,765	6,119,642	-
Municipal/Provincial bonds	146,366	-	4,050	8,100	134,216	-
Non-government backed CMOs	4,702,186	-	-	173,656	4,528,530	-
Other fixed income	2,282,167	119,402	1,563,347	259,208	340,210	-
Short-term investment funds	1,557,230	1,557,230	-	-	-	-
Total	\$ 78,605,971	\$ 6,460,394	\$ 26,479,693	\$ 16,717,504	\$ 28,948,380	\$ -

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. As of December 31, 2010 and 2009, the System held investments with the following credit ratings:

Fair market value as of December 31, 2010 by investment type and credit rating:

	AAA	AA	A	BBB	BB	B	CCC	CC	AGY/TSY	Not Rated
Asset-backed securities	\$ 3,807,859	\$ -	\$ -	\$ -	\$ -	\$ 355,253	\$ -	\$ 218,909	\$ -	\$ -
Commercial mortgage backed	2,525,337	-	-	-	-	-	-	-	-	-
Corporate bonds	712,249	1,116,064	3,638,831	3,303,034	730,673	290,302	248,410	-	-	45,049,499
Government agencies	-	-	-	-	-	-	-	-	-	-
Government bonds	7,234,273	-	-	84,375	-	-	-	-	-	-
Government mortgage backed	-	-	-	-	-	-	-	-	10,874,930	-
Municipal/Provincial bonds	-	-	-	86,795	-	-	-	-	-	-
Non-government backed CMOs	265,152	-	-	-	-	-	1,040,778	220,527	-	2,642,271
Short-term investment funds	-	-	-	-	-	-	-	-	-	4,685,987
Total	\$14,544,870	\$ 1,116,064	\$ 3,638,831	\$ 3,474,204	\$ 730,673	\$ 645,555	\$ 1,289,188	\$ 439,436	\$10,874,930	\$52,377,757

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

Fair market value as of December 31, 2009 by investment type and credit rating:

	AAA	AA	A	BBB	BB	B	CCC	CC	AGY/TSY	Not Rated
Asset-backed securities	\$ 2,874,067	\$ -	\$ -	\$ -	\$ 163,200	\$385,495	\$ -	\$242,160	\$ -	\$ 618,122
Commercial mortgage backed	1,275,223	-	-	-	-	-	-	-	626,609	180,654
Corporate bonds	-	814,900	3,550,641	2,905,373	522,134	172,375	259,048	15,840	-	41,241,037
Government agencies	655,520	-	152,597	-	-	-	-	-	-	-
Government bonds	5,535,227	-	-	79,125	-	-	-	-	-	-
Government mortgage backed	-	-	-	-	-	-	-	-	8,495,150	-
Municipal/Provincial bonds	-	-	-	93,715	-	-	-	-	-	-
Non-government backed CMOs	674,730	-	-	-	443,885	371,424	904,955	-	-	2,307,191
Other fixed income	-	-	-	-	-	-	-	-	-	5,998
Short-term investment funds	-	-	-	-	-	-	-	-	-	3,039,575
Total	\$11,014,767	\$814,900	\$ 3,703,238	\$ 3,078,213	\$ 1,129,219	\$929,294	\$ 1,164,003	\$258,000	\$ 9,121,759	\$47,392,577

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, 2010 and 2009, 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.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

As of December 31, 2010, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
Australia	\$ 623,464	\$ 230,070	\$ -	\$ 393,394
Brazil	1,464,494	1,189,499	-	274,995
Canada	4,315,754	4,315,754	-	-
Chile	636,778	636,778	-	-
China	431,694	431,694	-	-
Denmark	912,316	912,316	-	-
Euro	13,217,940	13,217,940	-	-
France	217,914	-	-	217,914
Hong Kong	1,997,302	1,997,302	-	-
Israel	528,441	528,441	-	-
Italy	321,628	-	-	321,628
Japan	6,128,604	6,128,604	-	-
Mexico	84,375	-	84,375	-
Netherlands	268,790	-	-	268,790
Norway	1,550,606	1,550,606	-	-
Republic of Korea	980,653	423,450	-	557,203
South Africa	573,013	573,013	-	-
Spain	172,521	-	-	172,521
Sweden	724,328	724,328	-	-
Switzerland	4,387,906	4,387,906	-	-
United Kingdom	9,424,047	8,746,065	-	677,982
Total	<u>\$ 48,962,568</u>	<u>\$ 45,993,766</u>	<u>\$ 84,735</u>	<u>\$ 2,884,427</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

As of December 31, 2009, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds	Agencies
Australia	\$ 759,885	\$ 382,900	\$ -	\$ 376,985	\$ -
Brazil	1,262,158	1,012,368	-	249,790	-
Canada	2,879,598	2,879,598	-	-	-
Chile	409,513	409,513	-	-	-
China	428,649	428,649	-	-	-
Denmark	890,045	890,045	-	-	-
Euro	13,744,168	13,744,168	-	-	-
France	235,602	-	-	235,602	-
Germany	383,842	383,842	-	-	-
Hong Kong	1,206,040	1,206,040	-	-	-
India	104,148	104,148	-	-	-
Israel	370,625	370,625	-	-	-
Italy	357,557	-	-	357,557	-
Japan	4,723,897	4,723,897	-	-	-
Mexico	79,125	-	79,125	-	-
Netherlands	257,222	-	-	257,222	-
Norway	892,987	892,987	-	-	-
Republic of Korea	694,749	-	-	542,152	152,597
Singapore	449,019	449,019	-	-	-
South Africa	221,734	221,734	-	-	-
Spain	78,178	-	-	78,178	-
Sweden	697,560	697,560	-	-	-
Switzerland	3,248,039	3,248,039	-	-	-
United Kingdom	8,462,063	7,817,920	-	644,143	-
Total	<u>\$ 42,836,403</u>	<u>\$ 39,863,052</u>	<u>\$ 79,125</u>	<u>\$ 2,741,629</u>	<u>\$ 152,597</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

Securities Lending Risk

As of December 31, 2010, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral		Fair Value of Loaned Securities Collateralized by Noncash Collateral		Market Value of Noncash Collateral
		Cash Collateral			
Global equities	\$ 4,701,334	\$ 4,926,844	\$ -	\$ -	
U.S. corporate fixed	1,973,697	2,016,551	-	-	
U.S. equities	6,660,833	6,849,936	231,300	236,334	
U.S. government fixed	4,956,558	5,013,280	-	-	
Total	<u>\$ 18,292,422</u>	<u>\$ 18,806,611</u>	<u>\$ 231,300</u>	<u>\$ 236,334</u>	

As of December 31, 2009, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral		Fair Value of Loaned Securities Collateralized by Noncash Collateral		Market Value of Noncash Collateral
		Cash Collateral			
Global equities	\$ 4,303,942	\$ 4,521,687	\$ -	\$ -	
U.S. corporate fixed	1,622,826	1,672,465	-	-	
U.S. equities	7,529,915	7,773,237	-	-	
U.S. government fixed	3,696,310	3,788,455	-	-	
Total	<u>\$ 17,152,993</u>	<u>\$ 17,755,844</u>	<u>\$ -</u>	<u>\$ -</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.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Deposits and Investments (Continued)

On September 18, 2008, the System had approximately \$31,000 in unsecured notes with Lehman Brothers under the securities lending agreement. Lehman Brothers applied for bankruptcy. The Northern Trust Company 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 securities lending were systematically reduced from mid-October 2008 through mid-February 2009. This action limited the System's securities lending exposure in the event of any further deficiency declarations.

In September 2009, Trustees voted to re-enter the Securities Lending program fully. In December 2009, The Northern Trust Company issued a reverse collateral deficiency, thus reducing the collateral deficiency amount to \$47,371. On March 18, 2010, The Northern Trust Company issued a final reverse collateral deficiency of \$47,371.

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 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)	Entry Age 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)
12/31/2004	\$ 315,021,806	\$ 285,041,937	\$ (29,979,869)	111%	\$ 32,543,780	0%
12/31/2005	325,044,112	284,262,073	(40,782,039)	114%	33,407,682	0%
12/31/2006	350,154,501	292,906,422	(57,248,079)	120%	33,887,922	0%
12/31/2007	365,116,538	300,989,725	(64,126,813)	121%	32,857,305	0%
12/31/2008	346,472,441	310,236,119	(36,236,322)	112%	33,004,358	0%
12/31/2009	334,247,051	348,250,068	14,003,017	96%	33,490,487	42%

City of Grand Rapids Police and Fire Retirement System

Required Supplemental Information Schedule of Employer Contributions

Fiscal Year/Period Ended	Annual Required Contribution	Percentage Contributed
12/31/2005	\$ 192,259	100%
12/31/2006	-	N/A
12/31/2007	-	N/A
12/31/2008	-	N/A
12/31/2009	-	N/A
12/31/2010	\$ 3,709,787	100%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2009, the latest actuarial valuation, follows:

Valuation date	December 31, 2009
Actuarial cost method	Individual entry age
Amortization method	Level %, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return*	7.5%
Projected salary*	4.0% - 21.0%

*Includes inflation at 4% and cost of living adjustment