

City of Grand Rapids Police and Fire Retirement System

**Financial Report
with Supplemental Information
December 31, 2011**

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, 2011 and 2010 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 respective financial position of the plan net assets of the City of Grand Rapids Police and Fire Retirement System as of December 31, 2011 and 2010 and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and retirement system schedules of funding progress, as identified on pages 2 through 5 and page 20, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

Grand Rapids, Michigan
April 18, 2012

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 as of and for the fiscal year ended December 31, 2011. 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, 2011:

	<u>2011</u>	<u>2010</u>
U.S. Equity	45%	45%
Fixed Income	30%	30%
Non-U.S. Equity	15%	15%
Real Estate	5%	5%
Private Markets	5%	5%

Investment Results

The System's performance consultant, Wilshire Associates, reported a market rate of return of 0.21% and 17.14% on retirement system assets for the years ended December 31, 2011 and 2010, respectively. Had the assets all been invested passively, the return would have been 1.03% and 13.71%, which means that the System's assets underperformed their benchmark by 0.82% for the year ended December 31, 2011 and outperformed their benchmark by 3.43% for the year ended December 31, 2010.

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.

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:

	2009	2010	2011	Change from Prior Year	
				In Dollars	As %
Assets:					
Cash and money market funds	\$ 5,025,051	\$ 5,770,399	\$ 3,114,584	\$ (2,655,815)	-46.0%
Stocks, equity mutual funds, and partnerships	183,163,228	206,143,401	194,627,848	(11,515,553)	-5.6%
Fixed Income	75,560,397	84,445,521	89,304,273	4,858,752	5.8%
Real Estate	14,590,715	16,161,003	14,678,912	(1,482,091)	-9.2%
Private Equity Partnerships	-	408,827	980,114	571,287	140.0%
Securities Lending Collateral	17,755,844	18,806,611	19,416,543	609,932	3.2%
Securities Lending Liability	(41,373)	-	-	-	0.0%
Total cash and investments	296,053,862	331,735,762	322,122,274	(9,613,488)	-2.9%
Receivables	1,579,530	1,534,743	1,871,565	336,822	21.9%
Total assets	297,633,392	333,270,505	323,993,839	(9,276,666)	-2.8%
Liabilities:					
Administrative expenses and investment management fees payable	299,175	335,639	279,741	(55,898)	-16.7%
Pending trades - purchases	506,399	1,815,542	726,973	(1,088,569)	-60.0%
Amounts due broker under securities lending agreement	17,755,844	18,806,611	19,416,543	609,932	3.2%
Total liabilities	18,561,418	20,957,792	20,423,257	(534,535)	-2.6%
Net assets held in trust for pension benefits	\$ 279,071,974	\$ 312,312,713	\$ 303,570,582	(8,742,131)	-2.8%

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 \$19.4 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:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	Change from Prior Year	
				<u>In Dollars</u>	<u>As %</u>
Additions:					
Contributions	\$ 1,602,503	\$ 5,658,696	\$ 9,757,453	\$ 4,098,757	72.4%
Net investment income (loss)	66,075,280	46,205,886	888,846	(45,317,040)	-98.1%
Securities Lending	56,975	32,717	28,412	(4,305)	-13.2%
Total additions	67,734,758	51,897,299	10,674,711	(41,222,588)	-79.4%
Deductions:					
Benefits	17,225,453	18,114,193	18,899,437	785,244	4.3%
Administrative expense	504,309	542,367	517,405	(24,962)	-4.6%
Total deductions	17,729,762	18,656,560	19,416,842	760,282	4.1%
Net increase (decrease)	50,004,996	33,240,739	(8,742,131)	(41,982,870)	-126.3%
Net assets held in trust for pension benefits:					
Beginning of year	229,066,978	279,071,974	312,312,713	33,240,739	11.9%
End of year	\$ 279,071,974	\$ 312,312,713	\$ 303,570,582	(8,742,131)	-2.8%

City of Grand Rapids Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

Other System Activities

The System hired FLAG Capital Management, LLC to manage \$5 million in Private Equity. The allocation will be funded gradually over a period of a few years, beginning in 2012.

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, 2011 (with comparative totals for December 31, 2010)

	2011	2010
Assets		
Cash and investments:		
Cash and money market funds	\$ 3,114,584	\$ 5,770,399
United States government obligations	21,844,545	18,193,578
State and municipal bonds	82,717	86,795
Corporate bonds	56,817,628	54,917,447
Common stocks and equity mutual funds	194,627,848	206,143,401
Real estate	14,678,912	16,161,003
Asset backed securities	10,559,383	11,247,701
Private equity	980,114	408,827
Investments held as collateral for securities lending - Core USA Fund	<u>19,416,543</u>	<u>18,806,611</u>
Total cash and investments	322,122,274	331,735,762
Receivables:		
Plan member contributions	109,240	98,770
Employer contributions	492,907	754,913
Interest and dividends	569,418	656,387
Pending trades - Sales	<u>700,000</u>	<u>24,673</u>
Total receivables	<u>1,871,565</u>	<u>1,534,743</u>
Total assets	323,993,839	333,270,505
Liabilities		
Administrative expenses payable	59,451	72,427
Investment management fees payable	220,290	263,212
Pending trades - Purchases	726,973	1,815,542
Amounts due to broker under securities lending agreement	<u>19,416,543</u>	<u>18,806,611</u>
Total liabilities	<u>20,423,257</u>	<u>20,957,792</u>
Net Assets Held in Trust for Pension Benefits		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 303,570,582</u>	<u>\$ 312,312,713</u>

City of Grand Rapids Police and Fire Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2011 (with comparative totals for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Additions to Net Assets		
Contributions:		
Plan members	\$ 1,906,402	\$ 1,948,909
Employer	<u>7,851,051</u>	<u>3,709,787</u>
Total contributions	9,757,453	5,658,696
Investment income:		
Interest and dividends	4,123,796	4,035,006
Net (depreciation) appreciation in fair value of investments	(2,371,604)	43,165,341
Investment expense	<u>(863,346)</u>	<u>(994,461)</u>
Net investment income	888,846	46,205,886
Securities lending:		
Income	43,691	50,308
Expense	<u>(15,279)</u>	<u>(17,591)</u>
Net securities lending income	<u>28,412</u>	<u>32,717</u>
Total additions - Net	10,674,711	51,897,299
Deductions from Net Assets		
Benefits	18,899,437	18,114,193
Administrative expenses	<u>517,405</u>	<u>542,367</u>
Total deductions	<u>19,416,842</u>	<u>18,656,560</u>
Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(8,742,131)	33,240,739
Net Assets Held in Trust for Pension Benefits		
Beginning of year	<u>312,312,713</u>	<u>279,071,974</u>
End of year	<u>\$ 303,570,582</u>	<u>\$ 312,312,713</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note I - Summary of Significant Accounting Policies

The City of Grand Rapids (the “City”) sponsors the Pension Plan of the City of Grand Rapids Police and Fire Retirement System (the “Plan”), which is a contributory single-employer retirement plan. The Plan, which is administered by the Plan’s Board of Trustees, is comprised of a defined benefit plan. The Plan provides retirement, disability and survivor benefits to plan members and beneficiaries.

The Pension Plan of the City of Grand Rapids Police and Fire Retirement System is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The Trustees of the Plan have fiduciary obligations and legal liability for any violations of fiduciary duties as independent trustees.

Reporting Entity

The financial statements of the Plan are also included in the combined financial statements of the City of Grand Rapids as a Pension Trust Fund. The assets of the Pension Trust Fund include no securities of or loans to the City or any other related party.

Basis of Accounting

The December 31, 2011 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.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 12.2% for police members.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Plan Description and Contribution Information (Continued)

At December 31, 2010 and 2009, the System's membership consisted of the following:

	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries receiving pension benefits	612	614
Terminated plan members entitled to but not yet receiving benefits	24	27
Active plan members	<u>534</u>	<u>506</u>
Total	<u>1,170</u>	<u>1,147</u>

Contributions

The City is required to contribute at an actuarially determined rate, which was calculated to be 20.96% for the period from January 1, 2011 through June 30, 2011 and 21.18% for the period from July 1, 2011 through December 31, 2011.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 4.20% 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.

Legally Required Reserves

The System maintains a member deposit fund which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest, upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2011 and 2010 is \$31,843,231 and \$30,862,646, respectively.

Annual Pension Costs

The annual employer contribution for the year ended December 31, 2011 was \$7,851,051. The annual contribution was determined by the actuarial valuation at December 31, 2010 and 2009.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Plan Description and Contribution Information (Continued)

The actuarial valuation at December 31, 2010 determined the annual contribution using the individual entry age cost method. Significant actuarial assumptions include (a) a 7.36% investment rate of return (7.5% for groups receiving annual postretirement increases, and 7.25% for groups participating in the 13th Check program), and (b) additional salary increases of 3.5% - 20.5% 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 3.5%. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years.

The actuarial valuation at December 31, 2009 determined the annual contribution 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, 2010 and 2009, the most recent actuarial valuation dates, the plan was 91% and 96% funded on an actuarial basis, respectively. The actuarial accrued liability for benefits was \$360,573,351 and \$348,250,068, respectively, and the actuarial value of the assets was \$328,609,947 and \$334,247,051, respectively, resulting in an underfunding of \$31,963,404 and \$14,003,017 at December 31, 2010 and 2009, respectively. The covered payroll (annual payroll for active employees covered by the Plan) was \$34,665,767 and \$33,490,487 for 2010 and 2009, respectively.

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:

	2011	2010	2009
Annual required contributions	\$ 7,851,051	\$ 3,709,787	\$ -
Percentage of ARC contributed	100 %	100 %	N/A
Net pension obligation	\$ -	\$ -	\$ -

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

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 as follows:

1. Investments in stock are limited to 70% of the System's assets, and investments in the stock of any one corporation are limited to 5% of the System's assets.
2. Investments in real estate are limited to 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:

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.

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note 3 - Deposits and Investments (Continued)

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, 2011, there were no cash equivalents exposed to custodial credit risk. As of December 31, 2010, \$1,266 of cash equivalents 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, 2011, 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	\$ 3,905,172	\$ -	\$ 1,710,543	\$ -	\$ 2,194,629	\$ -
Commercial mortgage backed	3,266,029	-	-	-	3,266,029	-
Corporate bonds	10,455,410	246,140	5,204,719	1,548,401	3,456,150	-
Funds - Corporate bonds	46,362,219	755,704	22,921,481	14,798,820	7,886,214	-
Government bonds	10,473,665	-	3,869,158	-	6,604,507	-
Government mortgage backed	11,370,880	-	258,068	1,136,949	9,975,863	-
Municipal/Provincial bonds	82,717	-	-	-	82,717	-
Non-government backed CMOs	3,388,182	-	-	1,515,059	1,873,123	-
Short-term investment funds	3,114,583	-	-	-	-	3,114,583
Total	\$ 92,418,857	\$ 1,001,844	\$ 33,963,969	\$ 18,999,229	\$ 35,339,232	\$ 3,114,583

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, 2011 and 2010

Note 3 - Deposits and Investments (Continued)

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, 2011 and 2010, the System held investments with the following credit ratings:

Fair market value as of December 31, 2011 by investment type and credit rating:

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	AGY/TSY	Not Rated
Asset-backed securities	\$ 1,774,789	\$ -	\$ 357,981	\$ -	\$ -	\$ 361,726	\$ 245,353	\$ 158,713	\$ -	\$ -	\$ -	\$ 1,006,610
Commercial mortgage backed	3,266,029	-	-	-	-	-	-	-	-	-	-	-
Corporate bonds	-	1,460,214	4,412,688	2,774,694	710,441	411,973	-	-	-	-	-	685,400
Funds - Corporate bonds	690,797	23,315,560	8,048,481	6,717,885	3,834,155	2,109,481	792,794	329,172	41,726	324,536	-	157,632
Government bonds	-	-	-	97,688	-	-	-	-	-	-	10,375,977	-
Government mortgage backed	-	-	-	-	-	-	-	-	-	-	11,370,880	-
Municipal/Provincial bonds	-	-	-	82,717	-	-	-	-	-	-	-	-
Non-government backed CMOs	169,035	-	-	-	-	-	963,027	137,752	-	-	-	2,118,368
Short-term investment funds	-	-	-	-	-	-	-	-	-	-	-	3,114,583
Total	\$ 5,900,650	\$ 24,775,774	\$ 12,819,150	\$ 9,672,984	\$ 4,544,596	\$ 2,883,180	\$ 2,001,174	\$ 625,637	\$ 41,726	\$ 324,536	\$ 21,746,857	\$ 7,082,593

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 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

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, 2011 and 2010, 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, 2011 and 2010

Note 3 - Deposits and Investments (Continued)

As of December 31, 2011, the System had the following foreign investments:

	Fair Market Value	Preferred and Common Stock	Government Bonds	Corporate Bonds
Australia	\$ 1,264,436	\$ 676,855	\$ -	\$ 587,581
Austria	238,153	238,153	-	-
Belgium	681,033	681,033	-	-
Brazil	397,447	112,809	-	284,638
Canada	4,373,072	4,169,763	-	203,309
Chile	459,593	459,593	-	-
China	593,293	593,293	-	-
Denmark	1,245,079	1,245,079	-	-
Euro	12,474	12,474	-	-
France	3,127,509	2,703,243	-	424,266
Germany	2,623,859	2,623,859	-	-
Ireland	263,222	263,222	-	-
Italy	278,001	-	-	278,001
Japan	5,347,992	5,347,992	-	-
Mexico	97,688	-	97,688	-
Netherlands	3,238,146	2,765,915	-	472,231
Norway	1,123,914	1,123,914	-	-
Republic of Korea	1,976,565	1,420,560	-	556,005
Russia	179,659	179,659	-	-
South Africa	467,949	467,949	-	-
Spain	95,601	-	-	95,601
Sweden	1,320,286	1,320,286	-	-
Switzerland	4,871,687	4,871,687	-	-
Turkey	162,947	162,947	-	-
United Kingdom	9,136,250	8,218,360	-	917,890
Total	<u>\$ 43,575,855</u>	<u>\$ 39,658,645</u>	<u>\$ 97,688</u>	<u>\$ 3,819,522</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

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>\$ 84,375</u>	<u>\$ 2,884,427</u>

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements December 31, 2011 and 2010

Note 3 - Deposits and Investments (Continued)

Securities Lending Risk

As of December 31, 2011, the System had the following investments:

	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Noncash Collateral	Fair Value of Noncash Collateral
U.S. corporate fixed	\$ 2,168,547	\$ 2,220,508	\$ -	\$ -
U.S. equities	6,973,525	7,170,999	-	-
U.S. government fixed	9,818,831	10,025,036	-	-
Total	<u>\$ 18,960,903</u>	<u>\$ 19,416,543</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Noncash Collateral	Fair Value of Noncash 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>

Michigan Public Act 314 of 1965, as amended, permits and trustees have implemented, a securities lending program whereby the System, through The Northern Trust Company, lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System has authorized The Northern Trust Company to utilize the Core U.S.A. Fund in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The System receives cash, letters of credit, or government securities as collateral for loans of its securities to approved borrowers. 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, 2011 and 2010

Note 3 - Deposits and Investments (Continued)

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.

Note 4 - Capital Funding Commitment

As of December 31, 2011, the Plan had approximately \$4.0 million outstanding on an initial commitment of \$5 million with Adams Street Partners.

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)
12/31/2005	\$ 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%
12/31/2010	328,609,947	360,573,351	31,963,404	91%	34,665,767	92%

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
12/31/2006	\$ -	N/A
12/31/2007	-	N/A
12/31/2008	-	N/A
12/31/2009	-	N/A
12/31/2010	3,709,787	100%
12/31/2011	7,851,051	100%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2010, the latest actuarial valuation, follows:

Valuation date	December 31, 2010
Actuarial cost method	Individual entry age
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return*	7.36%
Projected salary*	3.5% - 20.5%
Includes inflation at 3.5% and cost of living adjustment	