City of Grand Rapids Police and Fire Retirement System

Financial Statements
and Supplementary Information
Years Ended December 30, 2012 and 2011

City of Grand Rapids Police and Fire Retirement System

Financial Statements and Supplementary Information

Years Ended December 31, 2012 and 2011

City of Grand Rapids Police and Fire Retirement System

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Grand Rapids Police and Fire Retirement System (System) as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents. The financial statements of the City of Grand Rapids Police and Fire Retirement System as of December 31, 2011 and for the year then ended were audited by other auditors whose report dated April 18, 2012 expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2012, and the changes in net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and retirement system schedules of funding progress on pages 5-8 and 22-23, 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated April 10, 2013 on our consideration of the City of Grand Rapids Police and Fire Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grand Rapids Police and Fire Retirement System's internal control over financial reporting and compliance.

BDO USA, LLP

April 10, 2013

City of Grand Rapids Police and Fire Retirement System
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2012

This section of the City of Grand Rapids Police and Fire Retirement System (the System) annual financial statements presents a discussion and analysis of the financial performance of the System for the fiscal year ended December 31, 2012. 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, 2012:

	2012	2011
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 14.99% and 0.21% on retirement system assets for the years ended December 31, 2012 and 2011, respectively. Had the assets all been invested passively, the return would have been 13.47% and 1.03%, which means that the System's assets outperformed their benchmark by 1.52% for the year ended December 31, 2012 and underperformed their benchmark by 0.82% for the year ended December 31, 2011.

Management believes, and actuarial studies concur, that the System is in a solid financial position to meet its current obligations. We believe that the current financial position will continue to improve due to a prudent investment program, cost controls and strategic planning.

Using the Financial Statements

The System's financial report includes two financial statements: the Statement of Plan Net Position and the Statement of Changes in Plan Net Position. 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 Position presents all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Plan Net Position presents how the System's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the 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.

Statements of Plan Net Position

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

				Changes From Prior Year	
	2010	2011	2012	In Dollars	Percent
Assets					
Cash and money market funds	$ 5,770,399	$ 3,114,584	$ 6,470,445	$ 3,355,861	107.7%
Stocks, equity mutual funds, and partnerships	206,143,401	194,627,848	215,485,440	20,857,592	10.7
Fixed income	84,445,521	89,304,273	96,393,649	7,089,376	7.9
Real estate	16,161,003	14,678,912	18,520,806	3,841,894	26.2
Private equity partnerships	408,827	980,114	2,407,577	1,427,463	145.6
Securities lending collateral	18,806,611	19,416,543	12,301,384	(7,115,159)	(36.6)
Total cash and investments	331,735,762	322,122,274	351,579,301	29,457,027	9.1
Receivables	1,534,743	1,871,565	1,854,377	(17,188)	(0.9)
Total Assets	333,270,505	323,993,839	353,433,678	29,439,839	9.1
Liabilities					
Administrative expenses and investment management fees payable	335,639	279,741	283,371	3,630	1.3
Pending trades - purchases	1,815,542	726,973	690,335	(36,638)	(5.0)
Amounts due broker under securities lending agreement	18,806,611	19,416,543	12,301,384	(7,115,159)	(36.6)
Total Liabilities	20,957,792	20,423,257	13,275,090	(7,148,167)	(35.0)
Net Position Held in Trust for Pension Benefits	$ 312,312,713	$ 303,570,582	$ 340,158,588	$ 36,588,006	12.1%

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 fair value of cash collateral was approximately $12.3 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.

Differences in cash position from one year to the next are a function of buy and sell activity of the System's investment managers. There have been no changes to the System's asset allocation regarding its cash position.

Private equity investments are expected to increase from one year to the next, for the next several years, until the System's asset allocation of 5% to private equity has been achieved.

Statements of Changes in Plan Net Position

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

				Changes From Prior Year	
	2010	2011	2012	In Dollars	Percent
Additions					
Contributions	$ 5,658,696	$ 9,757,453	$ 11,141,547	$ 1,384,094	14.2%
Net investment income	46,205,886	888,846	45,114,763	44,225,917	4,975.7
Securities lending	32,717	28,412	25,648	(2,764)	(9.7)
Total Additions	51,897,299	10,674,711	56,281,958	45,607,247	427.2
Deductions					
Benefits	18,114,193	18,899,437	19,207,788	308,351	1.6
Administrative expense	542,367	517,405	486,164	(31,241)	(6.0)
Total Deductions	18,656,560	19,416,842	19,693,952	277,110	1.4
Net Increase (Decrease)	33,240,739	(8,742,131)	36,588,006	45,330,137	(518.5)
Net Position Held in Trust for Pension Benefits, beginning of year	279,071,974	312,312,713	303,570,582	(8,742,131)	(2.8)
Net Position Held in Trust for Pension Benefits, end of year	$ 312,312,713	$ 303,570,582	$ 340,158,588	$ 36,588,006	12.1%

Other System Activities

The System voted to hire Wellington Trust Company to manage 5% of assets in a commodities fund. The contract was signed in early January 2013, and funding took place on January 31, 2013 and February 1, 2013.

Contacting System Financial Management

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

Financial Statements

City of Grand Rapids Police and Fire Retirement System

Statements of Plan Net Position

December 31,	**2012**	2011
Assets		
Cash and Investments		
Cash and money market funds	**$ 6,470,445**	$ 3,114,584
United States government obligations	**24,993,539**	21,844,545
State and municipal bonds	**82,289**	82,717
Corporate bonds and fixed income commingled funds	**62,107,041**	56,817,628
Common stocks and equity mutual funds	**215,485,440**	194,627,848
Real estate	**18,520,806**	14,678,912
Asset-backed securities	**9,210,780**	10,559,383
Private equity	**2,407,577**	980,114
Investments held as collateral for securities lending:		
Core USA Fund	**12,301,384**	19,416,543
Total cash and investments	**351,579,301**	322,122,274
Receivables		
Plan member contributions	**219,906**	109,240
Employer contributions	**570,112**	492,907
Interest and dividends	**539,359**	569,418
Pending trades - sales	**525,000**	700,000
Total receivables	**1,854,377**	1,871,565
Total Assets	**353,433,678**	323,993,839
Liabilities		
Administrative expense payable	**72,948**	59,451
Investment management fees payable	**210,423**	220,290
Pending trades - purchases	**690,335**	726,973
Amounts due broker under securities lending agreement	**12,301,384**	19,416,543
Total Liabilities	**13,275,090**	20,423,257
Net Position Held in Trust for Pension Benefits	**$ 340,158,588**	$ 303,570,582

See accompanying notes to financial statements.

City of Grand Rapids Police and Fire Retirement System

Statements of Changes in Plan Net Position

Year ended December 31,	**2012**	2011
Additions to Net Position		
Contributions		
Plan members	**$ 2,947,320**	$ 1,906,402
Employer	**8,194,227**	7,851,051
Total Contributions	**11,141,547**	9,757,453
Investment Income		
Interest and dividends	**4,234,753**	4,123,796
Net appreciation (depreciation) in fair value of investments	**41,702,718**	(2,371,604)
Net investment income	**45,937,471**	1,752,192
Less investment expense	**(822,708)**	(863,346)
Net Investment Income, less investment expense	**45,114,763**	888,846
Securities Lending Income		
Income	**39,443**	43,691
Expense	**13,795**	15,279
Net Securities Lending Income	**25,648**	28,412
Total Additions, net	**56,281,958**	10,674,711
Deductions From Net Position		
Benefits	**19,207,788**	18,899,437
Administrative expenses	**486,164**	517,405
Total Deductions From Net Position	**19,693,952**	19,416,842
Net Increase (Decrease) in Net Position Held in Trust for Pension Benefits	**36,588,006**	(8,742,131)
Net Position Held in Trust for Pension Benefits, beginning of year	**303,570,582**	312,312,713
Net Position Held in Trust for Pension Benefits, end of year	**$ 340,158,588**	$ 303,570,582

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Reporting Entity

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

The Pension System of the City of Grand Rapids 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.

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

Basis of Accounting

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

Methods Used to Value Investments

Investments are reported at 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

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

New Accounting Pronouncements

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension system financial reports and specifies the required approach to measuring the liability of employer and certain non-employer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the System, this standard will be adopted for the year ending December 31, 2013.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with current year presentation.

Subsequent Events

Subsequent events have been evaluated by management through April 10, 2013, the date these financial statements were available to be issued.

2. Plan Description and Contribution Information

Plan Description

The System is a single-employer, defined benefit pension plan, which provides retirement and disability benefits to plan members and beneficiaries. 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.

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 2.8% 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 8.4% for fire members and 11.8% for police members for the period July 1, 2012 to June 30, 2013, and increased by 9.0% for fire members and 12.2% for police members for the period January 1, 2012 to June 30, 2012, and increased by 12.7% for fire members and 12.2% for police members for the period July 1, 2011 to December 31, 2011.

At December 31, 2011 and 2010, the System's membership consisted of the following:

December 31,	2011	2010
Retirees and beneficiaries receiving pension benefits	616	612
Terminated plan members entitled to but not receiving benefits	25	24
Active plan members	536	534
Total	1,177	1,170

Contributions

The City is required to contribute at an actuarially determined rate, calculated to be 21.18% for the period January 1, 2012 through June 30, 2012 and 22.26% for the period July 1, 2012 through December 31, 2012.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions currently range from 5.70% to 10.90% of regular compensation paid by the City, depending on the 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, 2012 and December 31, 2011 is $34,012,297 and $31,843,231, respectively.

Annual Pension Costs

The annual employer contribution for the year ended December 31, 2012 was $8,194,227. The annual contribution was determined by the actuarial valuations at December 31, 2011 and December 31, 2010 using the individual entry age cost method. Significant actuarial assumptions include: (a) 7.36% investment rate of return (7.50% for groups receiving annual post-retirement increases; 7.25% for groups participating in the 13th Check program), and (b) additional salary increases of 3.50% to 20.50% 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 3.50%. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The amortization period is 30 years.

The annual employer contribution for the year ended December 31, 2011 was $7,851,051. The annual contribution was determined by the actuarial valuations at December 31, 2009 and December 31, 2010. Per the actuarial reports dated December 31, 2011 and December 31, 2010, all assumptions have remained consistent.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 88% funded on an actuarial basis. The actuarial accrued liability for benefits was $365,300,394 and the actuarial value of the assets was $321,207,218, resulting in an underfunding of $44,093,176. The covered payroll (annual payroll for active employees covered by the Plan) was $34,566,692 for 2011.

The schedule of funding progress, presented as required supplementary 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:

December 31,	2011	2010	2009
Annual required contributions	$ 7,851,051	$ 3,709,786	$ -
Percentage of ARC contributed	100%	100%	N/A
Net pension obligation	$ -	$ -	$ -

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 counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. This portfolio will minimize custodial credit risk by limiting investments to those permitted by Michigan Public Act 314 of 1965, as amended, which include: (a) United States Treasury and Agency; (b) Mortgages (Collateral and CMOs); (c) Corporate Bonds (industrial, finance, asset-backed, utilities, telephone and Yankee); (d) Derivatives (futures, swaps, option contracts on the S&P 500 Index and U.S. Interest Rates, and futures and option contracts on U.S. Treasury and Agency securities); (e) American Depository

Receipts; (f) Non-Dollar Bonds; (g) Emerging Market Debt; (h) Cash equivalent investments (including repurchase agreements); (i) Short-term investment funds; (j) International Depository Receipts; (k) Global Depository Receipts; (l) Convertible Bonds; (m) Open and closed-end country funds; and (n) Warrants.

In addition, the System will 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, 2012 and 2011, no cash equivalents were exposed to custodial credit risk.

Interest Rate Risk

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

As of December 31, 2012, the System had the following debt investments and maturities.

	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	More Than 10 Years
Asset-backed securities	$ 2,389,087	$ -	$ 500,545	$ -	$ 1,888,542
Commercial mortgage-backed	3,758,665	-	459,564	-	3,299,101
Corporate bonds	10,934,361	2,497,977	3,272,472	1,396,594	3,767,318
Fixed income commingled funds	51,172,680	-	51,172,680	-	-
Government agencies	407,314	-	407,314	-	-
Government bonds	10,769,327	-	1,401,867	3,045,234	6,322,226
Government mortgage-backed	13,343,237	-	249,200	852,563	12,241,474
Government issued commercial mortgage-backed	473,661	-	473,661	-	-
Municipal/provincial bonds	82,289	-	-	-	82,289
Non-government backed CMOs	3,063,028	-	225,074	1,030,799	1,807,155
Short-term investment funds	6,437,995	6,437,995	-	-	-
Total	$ 102,831,644	$ 8,935,972	$ 58,162,377	$ 6,325,190	$ 29,408,105

As of December 31, 2011, the System had the following debt investments and maturities.

	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	More Than 10 Years
Asset-backed securities	$ 3,905,172	$ -	$ 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
Fixed income commingled funds	46,362,219	-	46,362,219	-	-
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	$ 3,360,723	$ 57,404,707	$ 4,200,409	$ 27,453,018

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed income portfolio invests in both investment grade bonds and high yield bonds. However, the overall credit rating for the composite is not to be below an “A” rating. At December 31, 2012 and 2011, the System held debt investments with the following credit ratings.

Fair market value as of December 31, 2012 by investment type and credit rating is as follows:

	S & P Rating										
Investment Type	AAA	AA	A	BBB	BB	B	CCC	CC	D	AGY/ TSY	Not Rated
Asset-backed securities	$ 496,251	$ 165,500	$ 160,969	$ 254,531	$ -	$ -	$ 692,851	$ 118,440	$ -	$ -	$ 500,545
Commercial mortgage-backed	2,339,311	-	-	-	-	-	-	-	-	-	1,419,354
Corporate bonds	-	1,440,192	4,626,632	3,120,608	532,145	510,216	-	-	-	-	704,568
Fixed income commingled funds	-	-	51,172,680	-	-	-	-	-	-	-	-
Government agencies	-	407,315	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	108,000	-	-	-	-	-	10,661,327	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	13,343,237	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	473,681	-
Municipal/provincial bonds	-	-	-	-	82,289	-	-	-	-	-	-
Non-government backed CMOs	37,997	96,297	129,060	-	-	-	671,265	128,852	127,400	-	1,872,156
Funds – short-term investment	-	-	6,437,995	-	-	-	-	-	-	-	-
Total	$ 2,873,559	$2,109,304	$62,527,336	$3,483,139	$ 614,434	$ 510,216	$1,364,116	$ 247,292	$ 127,400	$24,478,245	$4,496,623

Assets listed in the AGY/TSY column above represent U.S. government-backed securities and, therefore, have no credit risk.

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

	S & P Rating									
	AAA	AA	A	BBB	BB	B	CCC	CC	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
Fixed income commingled funds	-	-	46,362,219	-	-	-	-	-	-	-
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	$ 5,209,853	$ 1,460,214	$54,247,471	$ 2,955,099	$ 710,441	$ 773,699	$ 1,208,380	$ 296,465	$ 21,746,857	$ 3,810,378

Assets listed in the AGY/TSY column above represent U.S. government-backed securities and, therefore, have no credit risk.

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, 2012 and 2011, no single holding within this portfolio represented more than 5% of the total fund.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. In general, the foreign currency exposure resulting from international investments is not hedged. This exposes the portfolio to foreign currency risk, which is not expected to harm or help the performance of the fund in a significant way over the long term.

The System invests in an institutional commingled international fund with Neuberger Berman. The market value of this account was $49,714,054 and $41,868,121 as of December 31, 2012 and December 31, 2011, respectively.

As of December 31, 2012, the System had the following foreign investments:

	Total	Preferred and Common Stock	Government Bonds	Corporate Bonds
Fair Value in U.S. Dollars	$ 53,840,411	$ 49,622,311	$ 108,000	$ 4,110,100

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

	Total	Preferred and Common Stock	Government Bonds	Corporate Bonds
Fair Value in Euro	$ 12,474	$ 12,474	$ -	$ -
Fair Value in U.S. Dollars	45,698,398	41,781,190	97,688	3,819,520

Securities Lending Risk

As of December 31, 2012, the System had the following securities lending investments:

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Non-Cash Collateral	Fair Value of Non-Cash Collateral
U.S. agencies	$ 408,152	$ 417,991	$ -	$ -
U.S. corporate fixed	2,121,059	2,165,133	-	-
U.S. equities	4,966,624	5,009,694	475,733	479,456
U.S. government fixed	4,616,162	4,708,566	-	-
	$ 12,111,997	$ 12,301,384	$ 475,733	$ 479,456

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

Investment Type	Fair Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Fair Value of Loaned Securities Collateralized by Non-Cash Collateral	Fair Value of Non-Cash Collateral
U.S. corporate fixed	$ 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	-	-
	$ 18,960,903	$ 19,416,543	$ -	$ -

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.

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.

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4. Capital Funding Commitment

At December 31, 2012 and 2011, the Plan had the following approximate amounts outstanding on initial commitments of $5.0 million each with Adams Street Partners and FLAG Capital (in millions):

	2012	2011
Adam Street Partners	**$ 3.4**	$ 4.0
Flag Capital	**4.1**	N/A

Required Supplementary Information

City of Grand Rapids Police and Fire Retirement System

Schedule 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)
12/31/2006	$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	346,472,441	310,236,119	(36,236,322)	112	33,004,358	-
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
12/31/2011	321,207,218	365,300,394	44,093,176	88	34,566,692	128

City of Grand Rapids Police and Fire Retirement System

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	3,709,786	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, 2011, the latest actuarial valuation, follows:

Valuation date	December 31, 2011
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 increases	3.5% - 20.5%
Includes inflation at 3.5% and cost of living adjustment	

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Grand Rapids Police and Fire Retirement System (System) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grand Rapids Police and Fire Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

April 10, 2013