



# City of Grand Rapids Police and Fire Retirement System

Financial Statements  
and Supplementary Information  
Years Ended December 31, 2013 and 2012

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

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Financial Statements and Supplementary Information  
Years Ended December 31, 2013 and 2012

# City of Grand Rapids Police and Fire Retirement System

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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 (the System) as of and for the years ended December 31, 2013 and 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.

#### *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 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 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 audits 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 System'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 System'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 opinion.

### *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, 2013 and 2012, and the changes in financial position for the years 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 management's discussion and analysis and the schedules of funding progress and employer contributions on pages 5-8 and 23-24, 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 June 9, 2014 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 the City of Grand Rapids Police and Fire Retirement System's internal control over financial reporting and compliance.

*BDO USA, LLP*

June 9, 2014

**City of Grand Rapids Police and Fire Retirement System  
Management's Discussion and Analysis  
For the Year Ended December 31, 2013**

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, 2013. 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, 2013:

	2013	2012
U.S. equity	40%	45%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Private equity	5	5
Commodities	5	0

***Investment Results***

The System's performance consultant, Wilshire Associates, reported a market rate of return of 16.98% and 14.99% on retirement system assets for the years ended December 31, 2013 and 2012, respectively. Had the assets all been invested passively, the return would have been 15.65% and 13.47%, which means that the System's assets outperformed their benchmark by 1.33% for the year ended December 31, 2013 and 1.52% for the year ended December 31, 2012.

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 Statements of Plan Net Position and the Statements 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 Statements of Plan Net Position present 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 position measure whether the System's financial position is improving or deteriorating. The Statements of Changes in Plan Net Position present 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:

	2011	2012	2013	Change From Prior Year	
				In Dollars	As %
<b>Assets</b>					
Cash and money market funds	\$ 3,114,584	\$ 6,470,445	\$ 3,625,438	\$ (2,845,007)	-44.0%
Stocks, equity mutual funds and partnerships	194,627,848	215,485,440	250,852,595	35,367,155	16.4%
Fixed income	89,304,273	96,393,649	95,015,855	(1,377,794)	-1.4%
Real estate	14,678,912	18,520,806	19,316,749	795,943	4.3%
Private equity partnerships	980,114	2,407,577	3,351,759	944,182	39.2%
Commodities	-	-	14,493,080	14,493,080	100.0%
Securities lending collateral	19,416,543	12,301,384	21,797,271	9,495,887	77.2%
<b>Total cash and investments</b>	<b>322,122,274</b>	<b>351,579,301</b>	<b>408,452,747</b>	<b>56,873,446</b>	<b>16.2%</b>
Receivables	1,871,565	1,854,377	2,871,309	1,016,932	54.8%
<b>Total Assets</b>	<b>323,993,839</b>	<b>353,433,678</b>	<b>411,324,056</b>	<b>57,890,378</b>	<b>16.4%</b>
<b>Liabilities</b>					
Administrative expenses and investment management fees payable	279,741	283,371	321,453	38,082	13.4%
Pending trades - purchases	726,973	690,335	1,022,856	332,521	48.2%
Amounts due broker under securities lending agreement	19,416,543	12,301,384	21,797,271	9,495,887	77.2%
<b>Total Liabilities</b>	<b>20,423,257</b>	<b>13,275,090</b>	<b>23,141,580</b>	<b>9,866,490</b>	<b>74.3%</b>
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$ 303,570,582</b>	<b>\$ 340,158,588</b>	<b>\$ 388,182,476</b>	<b>\$ 48,023,888</b>	<b>14.1%</b>

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. As of December 31, 2013, the market value of securities on loan was approximately \$21.3 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:

	2011	2012	2013	Change From Prior Year	
				In Dollars	As %
<b>Additions</b>					
Contributions	\$ 9,757,453	\$ 11,141,547	\$ 11,425,483	\$ 283,936	2.5%
Net investment income	888,846	45,114,763	57,050,054	11,935,291	26.5%
Securities lending	28,412	25,648	33,997	8,349	32.6%
<b>Total Additions</b>	<b>10,674,711</b>	<b>56,281,958</b>	<b>68,509,534</b>	<b>12,227,576</b>	<b>21.7%</b>
<b>Deductions</b>					
Benefits	18,899,437	19,207,788	19,974,505	766,717	4.0%
Administrative expense	517,405	486,164	511,141	24,977	5.1%
<b>Total Deductions</b>	<b>19,416,842</b>	<b>19,693,952</b>	<b>20,485,646</b>	<b>791,694</b>	<b>4.0%</b>
<b>Net Increase (Decrease)</b>	<b>(8,742,131)</b>	<b>36,588,006</b>	<b>48,023,888</b>	<b>11,435,882</b>	<b>31.3%</b>
<b>Net Position Held in Trust for Pension Benefits, beginning of year</b>	<b>312,312,713</b>	<b>303,570,582</b>	<b>340,158,588</b>	<b>36,588,006</b>	<b>12.1%</b>
<b>Net Position Held in Trust for Pension Benefits, end of year</b>	<b>\$ 303,570,582</b>	<b>\$ 340,158,588</b>	<b>\$ 388,182,476</b>	<b>\$ 48,023,888</b>	<b>14.1%</b>



### *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. The System also committed an additional \$5 million private equity investment to Adams Street Partners, in its 2013 Global Fund. The contract was signed in June 2013 and the first capital contribution was made in early July 2013. As with all private equity investments, funding will occur gradually over an extended time period.

### *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

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# City of Grand Rapids Police and Fire Retirement System

## Statements of Plan Net Position

<i>December 31,</i>	2013	2012
<b>Assets</b>		
<b>Cash and Investments</b>		
Cash and money market funds	\$ 3,625,438	\$ 6,470,445
United States government obligations	22,184,149	24,993,539
State and municipal bonds	699,147	82,289
Corporate bonds and fixed income commingled funds	63,100,899	62,107,041
Common stocks and equity mutual funds	250,852,595	215,485,440
Real estate	19,316,749	18,520,806
Asset-backed securities	9,031,660	9,210,780
Private equity	3,351,759	2,407,577
Commodities	14,493,080	-
Investments held as collateral for securities lending: Core USA Fund	21,797,271	12,301,384
<b>Total cash and investments</b>	<b>408,452,747</b>	<b>351,579,301</b>
<b>Receivables</b>		
Plan member contributions	319,470	219,906
Employer contributions	498,822	570,112
Interest and dividends	453,017	539,359
Pending trades - sales	1,600,000	525,000
<b>Total receivables</b>	<b>2,871,309</b>	<b>1,854,377</b>
<b>Total Assets</b>	<b>411,324,056</b>	<b>353,433,678</b>
<b>Liabilities</b>		
Administrative expense payable	64,231	72,948
Investment management fees payable	257,222	210,423
Pending trades - purchases	1,022,856	690,335
Amounts due broker under securities lending agreement	21,797,271	12,301,384
<b>Total Liabilities</b>	<b>23,141,580</b>	<b>13,275,090</b>
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$ 388,182,476</b>	<b>\$ 340,158,588</b>

*See accompanying notes to financial statements.*

# City of Grand Rapids Police and Fire Retirement System

## Statements of Changes in Plan Net Position

<i>Year ended December 31,</i>	2013	2012
<b>Additions to Net Position</b>		
<b>Contributions</b>		
Plan members	\$ 3,893,917	\$ 2,947,320
Employer	7,531,566	8,194,227
<b>Total Contributions</b>	<b>11,425,483</b>	<b>11,141,547</b>
<b>Investment Income</b>		
Interest and dividends	4,368,122	4,234,753
Net appreciation in fair value of investments	53,663,408	41,702,718
Net investment income	58,031,530	45,937,471
Less investment expense	(981,476)	(822,708)
<b>Net Investment Income, less investment expense</b>	<b>57,050,054</b>	<b>45,114,763</b>
<b>Securities Lending Income</b>		
Income	52,279	39,443
Expense	(18,282)	(13,795)
<b>Net Securities Lending Income</b>	<b>33,997</b>	<b>25,648</b>
<b>Total Additions, net</b>	<b>68,509,534</b>	<b>56,281,958</b>
<b>Deductions From Net Position</b>		
Benefits	19,974,505	19,207,788
Administrative expenses	511,141	486,164
<b>Total Deductions From Net Position</b>	<b>20,485,646</b>	<b>19,693,952</b>
<b>Net Increase in Net Position Held in Trust for Pension Benefits</b>	<b>48,023,888</b>	<b>36,588,006</b>
<b>Net Position Held in Trust for Pension Benefits, beginning of year</b>	<b>340,158,588</b>	<b>303,570,582</b>
<b>Net Position Held in Trust for Pension Benefits, end of year</b>	<b>\$ 388,182,476</b>	<b>\$ 340,158,588</b>

*See accompanying notes to financial statements.*

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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### 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. There are seven Trustees: one elected by Police members, one elected by Fire members, one member of the City Commission to be appointed by the City Commission, one person appointed by the Mayor, two persons appointed by the City Commission and one person appointed by the City Commission from a list of not less than four (4) eligible persons submitted jointly by the Police and Fire members.

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 position 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 position 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

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### *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 Pronouncement*

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, 2014.

### *Subsequent Events*

Subsequent events have been evaluated by management through June 9, 2014, 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 and provide for an annual escalator to each member's retirement allowance subsequent to his/her retirement date. The adjustment is a 1% non-compounding escalator for Police members (1.5% for Fire members), and depending upon the bargaining unit, is available to eligible members after the specified waiting period. Eligibility for the escalator depends upon the member's bargaining unit and termination date. The Police Chief, Deputy Police Chief and Fire Chief are not eligible for the escalator program; they are eligible for the plan's 13<sup>th</sup> Check program.

### *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

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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years and months of credited service, up to the applicable allowance cap. Fire members hired on or after January 10, 2012 will have a 2.0% multiplier for the first five years of employment and will have an option between four-and-a-half years and five years of employment to irrevocably elect to increase his/her benefit multiplier to 2.2%, 2.4%, 2.6% or 2.8% for all future credited service after the first five years. If no election is made by such Fire member prior to his/her five-year employment anniversary date, then all credited service shall be calculated using a 2.0% multiplier. Police members hired on or after December 20, 2011 will have a 2.0% multiplier for the first five years of employment and will have an option between four and five years of employment to irrevocably elect to increase his/her benefit multiplier to 2.2%, 2.4%, 2.6% or 2.8% for all future credited service after the first five years. If no election is made by such Police member prior to his/her five-year employment anniversary date, then all credited service shall be calculated using a 2.0% multiplier. If a Police Command member is promoted into the unit from the Police Officers and Sergeants unit and has already elected a higher multiplier, or defaulted to a 2.0% multiplier for all service, then that election or default shall be applicable for service earned while in the Command unit as well. 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 8.2% for Fire members and 11.3% for Police members for the period July 1, 2013 to June 30, 2014, and increased by 8.4% for Fire members and 11.8% for Police members for the period January 1, 2013 to June 30, 2013, and increased by 8.4% for Fire members and 11.8% for Police members for the period July 1, 2012 to December 31, 2012.

At December 31, 2012 and 2011, the System's membership consisted of the following:

<i>December 31,</i>	2012	2011
Retirees and beneficiaries receiving pension benefits	623	616
Terminated plan members entitled to but not receiving benefits	24	25
Active plan members	515	536
<b>Total</b>	<b>1,162</b>	<b>1,177</b>

### *Contributions*

The City is required to contribute at an actuarially determined rate, calculated to be 22.26% of active member payroll for the period July 1, 2012 through June 30, 2013 and 19.07% for the period July 1, 2013 through December 31, 2013. The required rates were calculated to be 21.18% for the period January 1, 2012 through June 30, 2012.

Plan member contributions, which are required by ordinance, are based on compensation. Contributions currently range from 9.86% to 10.89% 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.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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### *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, 2013 and December 31, 2012 is \$36,740,292 and \$34,012,297, respectively.

### *Annual Pension Costs*

The annual employer contribution for the year ended December 31, 2013 was \$7,531,566. The annual contribution was determined by the actuarial valuations at December 31, 2012 and December 31, 2011 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 13<sup>th</sup> 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, 2012 was \$8,194,227. The annual contribution was determined by the actuarial valuations at December 31, 2011 and December 31, 2010. Per the actuarial reports dated December 2011 and 2010, all assumptions have remained consistent.

### *Funded Status and Funding Progress*

As of December 31, 2012, the most recent actuarial valuation date, the System was 86% funded on an actuarial basis. The actuarial accrued liability for benefits was \$375,797,800 and the actuarial value of the assets was \$321,323,888, resulting in an underfunding of \$54,473,912. The covered payroll (annual payroll for active employees covered by the Plan) was \$33,970,131 for 2012.

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:

<i>December 31,</i>	2012	2011	2010
Annual required contributions	\$ 8,194,227	\$ 7,851,051	\$ 3,709,786
Percentage of ARC contributed	100%	100%	100%
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



# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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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; 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 10% 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 following was the Board's adopted asset allocation policy as of December 31, 2013 and 2012:

<i>Asset Class</i>	Target Allocation	
	2013	2012
U.S. equity	40%	45%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Private equity	5	5
Commodities	5	-

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, 2013 and 2012, no cash equivalents were exposed to custodial credit risk.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

### 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, 2013, 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	\$ 2,364,698	\$ -	\$ 906,747	\$ -	\$ 1,457,951
Commercial mortgage-backed	4,229,003	-	446,891	-	3,782,112
Corporate bonds	12,203,016	453,782	6,192,424	1,852,179	3,704,631
Fixed income commingled funds	50,897,883	-	-	50,897,883	-
Government agencies	401,556	-	401,556	-	-
Government bonds	9,989,629	-	3,972,195	2,119,476	3,897,958
Government mortgage-backed	11,338,132	301	155,692	885,030	10,297,109
Government issued commercial mortgage-backed	454,832	-	454,832	-	-
Municipal/provincial bonds	699,147	-	431,823	72,816	194,508
Non-government backed CMOs	2,437,959	-	229,332	714,830	1,493,797
Securities lending collateral pool	21,797,271	21,797,271	-	-	-
Short-term investment funds	3,625,438	3,625,438	-	-	-
<b>Total</b>	<b>\$ 120,438,564</b>	<b>\$ 25,876,792</b>	<b>\$ 13,191,492</b>	<b>\$ 56,542,214</b>	<b>\$ 24,828,066</b>

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
Securities lending collateral pool	12,301,384	12,301,384	-	-	-
Short-term investment funds	6,437,995	6,437,995	-	-	-
<b>Total</b>	<b>\$ 115,133,028</b>	<b>\$ 21,237,356</b>	<b>\$ 58,162,377</b>	<b>\$ 6,325,190</b>	<b>\$ 29,408,105</b>

### 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, 2013 and 2012, the System held debt investments with the following credit ratings.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

Fair market value as of December 31, 2013 by investment type and credit rating is as follows:

Investment Type	S & P Rating										AGY/ TSY	Not Rated
	AAA	AA	A	BBB	BB	B	CCC	CC	D			
Asset-backed securities	\$ 906,747	\$ 459,241	\$ 130,516	\$ 162,347	\$ -	\$ -	\$ 631,053	\$ 74,794	\$ -	\$ -	\$ -	-
Commercial mortgage-backed	2,004,870	-	-	-	-	-	-	-	-	-	-	2,224,133
Corporate bonds	-	2,152,078	5,232,209	3,386,236	916,176	21,240	-	-	-	-	-	495,077
Fixed income commingled funds	-	-	50,897,883	-	-	-	-	-	-	-	-	-
Government agencies	-	401,556	-	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	88,500	-	-	-	-	-	-	9,901,129	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	-	11,338,133	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	-	454,832	-
Municipal/provincial bonds	-	199,652	232,170	-	72,816	-	-	-	-	-	-	194,509
Non-government backed CMOs	-	67,361	135,844	-	-	-	536,437	-	97,537	-	-	1,600,780
Funds - short-term investment	-	-	3,625,437	-	-	-	-	-	-	-	-	-
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	-	21,797,271
<b>Total</b>	<b>\$ 2,911,617</b>	<b>\$ 3,279,888</b>	<b>\$ 60,254,059</b>	<b>\$ 3,637,083</b>	<b>\$ 988,992</b>	<b>\$ 21,240</b>	<b>\$ 1,167,490</b>	<b>\$ 74,794</b>	<b>\$ 97,537</b>	<b>\$ 21,694,094</b>	<b>\$ 26,311,770</b>	

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, 2012 by investment type and credit rating is as follows:

Investment Type	S & P Rating										AGY/ TSY	Not Rated
	AAA	AA	A	BBB	BB	B	CCC	CC	D			
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	-	-	-	-	-	-	-	-	-
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	-	12,301,384
<b>Total</b>	<b>\$ 2,873,559</b>	<b>\$ 2,109,304</b>	<b>\$ 62,527,336</b>	<b>\$ 3,483,139</b>	<b>\$ 614,434</b>	<b>\$ 510,216</b>	<b>\$ 1,364,116</b>	<b>\$ 247,292</b>	<b>\$ 127,400</b>	<b>\$ 24,478,245</b>	<b>\$ 16,798,007</b>	

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

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

### *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, 2013 and 2012, 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 \$58,609,527 and \$49,714,054 as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, the System had the following foreign investments:

	Total	Equities	Preferred and Common Stock	Government Bonds	Partnership	Corporate Bonds
<b>Fair Value in U.S. Dollars</b>	<b>\$ 65,254,433</b>	<b>\$ 961,229</b>	<b>\$ 58,608,055</b>	<b>\$ 88,500</b>	<b>\$ 346,145</b>	<b>\$ 5,250,504</b>

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

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

### *Securities Lending Risk*

As of December 31, 2013, the System had the following investment types on loan for securities lending purposes, and received the following cash collateral for those loans:

<i>Investment Type</i>	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	\$ 1,301,873	\$ 1,330,537	\$ -	\$ -
U.S. equities	10,646,099	10,876,267	-	-
U.S. government fixed	9,377,446	9,590,467	-	-
	<b>\$ 21,325,418</b>	<b>\$ 21,797,271</b>	<b>\$ -</b>	<b>\$ -</b>

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

As of December 31, 2012, the System had the following investment types on loan for securities lending purposes, and received the following collateral for those loans:

<i>Investment Type</i>	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	-	-
	<b>\$ 12,111,997</b>	<b>\$ 12,301,384</b>	<b>\$ 475,733</b>	<b>\$ 479,456</b>

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; effective February 22, 2013, the System only receives cash collateral. 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 either by lender or borrower.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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### 4. Capital Funding Commitment

At December 31, 2013, the Plan had the following approximate amounts (in millions) outstanding on initial commitments of \$10.0 million with Adams Street Partners and \$5.0 million with FLAG Capital. At December 31, 2012, the Plan had the following approximate amounts (in millions) outstanding on initial commitments of \$5.0 million each with Adams Street Partners and FLAG Capital.

	2013	2012
Adam Street Partners (2010)	\$ 3.0	\$ 3.4
Flag Capital	4.0	4.1
Adams Street Partners (2013)	4.6	-

## Required Supplementary Information

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# City of Grand Rapids Police and Fire Retirement System

## Schedule of Funding Progress

<i>Actuarial Valuation Date</i>	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
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%
12/31/2011	321,207,218	365,300,394	44,093,176	88%	34,566,692	128%
12/31/2012	321,323,888	375,797,800	54,473,912	86%	33,970,131	160%



# City of Grand Rapids Police and Fire Retirement System

## Schedule of Employer Contributions

<i>Fiscal Year/Period Ended</i>	Annual Required Contribution	Percentage Contributed
12/31/2007	\$ -	0%
12/31/2008	-	0%
12/31/2009	-	0%
12/31/2010	3,709,786	100%
12/31/2011	7,851,051	100%
12/31/2012	8,194,227	100%

The Information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Valuation date	December 31, 2012
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	



## Independent Auditor's 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 (the System) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 9, 2014.

### *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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

June 9, 2014