



City of Grand Rapids Police and Fire Retirement System

Financial Statements
and Required Supplementary Information
Years Ended December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, and the changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Required Supplementary Information, as listed in the table of contents, 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 May 12, 2015 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

May 12, 2015

**City of Grand Rapids Police and Fire Retirement System
Management’s Discussion and Analysis
For the Years Ended December 31, 2014 and 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 years ended December 31, 2014 and 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, 2014 and 2013:

	2014	2013
U.S. equity	40%	40%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Private equity	5	5
Commodities	5	5

Investment Results

The System’s performance consultant, Wilshire Associates, reported a market rate of return of 7.67% and 16.98% on retirement system assets for the years ended December 31, 2014 and 2013, respectively. Had the assets all been invested passively, the return would have been 7.06% and 15.65%, which means that the System’s assets outperformed their benchmark by 0.61% for the year ended December 31, 2014 and 1.33% for the year ended December 31, 2013.

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 Fiduciary Net Position and the Statements of Changes in Fiduciary 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 Fiduciary 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 Fiduciary 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 Required Supplementary Information 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 Fiduciary Net Position

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

	2012	2013	2014	Change From Prior Year	
				In Dollars	As %
Assets					
Cash and money market funds	\$ 6,470,445	\$ 3,625,438	\$ 4,501,621	\$ 876,183	24.2%
Investments					
Stocks, equity mutual funds and partnerships	215,485,440	250,852,595	239,594,385	(11,258,210)	-4.5%
Fixed income	96,393,649	95,015,855	118,597,861	23,582,006	24.8%
Real estate	18,520,806	19,316,749	20,781,295	1,464,546	7.6%
Private equity partnerships	2,407,577	3,351,759	6,269,010	2,917,251	87.0%
Commodities	-	14,493,080	16,697,349	2,204,269	15.2%
Securities lending collateral	12,301,384	21,797,271	15,830,832	(5,966,439)	-27.4%
Total investments	345,108,856	404,827,309	417,770,732	12,943,423	3.2%
Receivables	1,854,377	2,871,309	2,016,709	(854,600)	-29.8%
Total Assets	353,433,678	411,324,056	424,289,062	12,965,006	3.2%
Liabilities					
Administrative expenses and investment management fees payable	283,371	321,453	288,584	(32,869)	-10.2%
Pending trades - purchases	690,335	1,022,856	1,343,188	320,332	31.3%
Amounts due broker under securities lending agreement	12,301,384	21,797,271	15,830,832	(5,966,439)	-27.4%
Total Liabilities	13,275,090	23,141,580	17,462,604	(5,678,976)	-24.5%
Net Position Restricted for Pensions	\$ 340,158,588	\$ 388,182,476	\$ 406,826,458	\$ 18,643,982	4.8%

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, 2014, the market value of securities on loan was approximately \$15.5 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.

Statements of Changes in Fiduciary Net Position

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

	2012	2013	2014	Change From Prior Year	
				In Dollars	As %
Additions					
Contributions	\$ 11,141,547	\$ 11,425,483	\$ 10,895,540	\$ (529,943)	-4.6%
Net investment income	45,114,763	57,050,054	29,328,281	(27,721,773)	-48.6%
Securities lending	25,648	33,997	47,555	13,558	39.9%
Total Additions	56,281,958	68,509,534	40,271,376	(28,238,158)	-41.2%
Deductions					
Benefits	19,207,788	19,974,505	21,103,787	1,129,282	5.7%
Administrative expense	486,164	511,141	523,607	12,466	2.4%
Total Deductions	19,693,952	20,485,646	21,627,394	1,141,748	5.6%
Net Increase (Decrease)	36,588,006	48,023,888	18,643,982	(29,379,906)	-61.2%
Net Position Restricted for Pensions, beginning of year	303,570,582	340,158,588	388,182,476	48,023,888	14.1%
Net Position Restricted for Pensions, end of year	\$ 340,158,588	\$ 388,182,476	\$ 406,826,458	\$ 18,643,982	4.8%

Other System Activities

The System voted to amend its asset allocation in May 2014, to further diversify the System's investments. Funding for new allocations to American Depositary Receipts (ADRs) and Master Limited Partnerships (MLPs) occurred in February 2015 and March 2015. Funding for a new allocation to Treasury Inflation Protected Securities (TIPS) is expected to occur in April 2015.

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 Fiduciary Net Position

<i>December 31,</i>	2014	2013
Assets		
Cash		
Cash and money market funds	\$ 4,501,621	\$ 3,625,438
Receivables		
Plan member contributions	168,770	319,470
Employer contributions	229,093	498,822
Interest and dividends	493,846	453,017
Pending trades - sales	1,125,000	1,600,000
Total Receivables	2,016,709	2,871,309
Investments		
United States government obligations	28,793,294	22,184,149
State and municipal bonds	648,191	699,147
Corporate bonds and fixed income commingled funds	80,075,469	63,100,899
Common stocks and equity mutual funds	239,594,385	250,852,595
Real estate	20,781,295	19,316,749
Asset-backed securities	9,080,907	9,031,660
Private equity	6,269,010	3,351,759
Commodities	16,697,349	14,493,080
Investments held as collateral for securities lending:		
Core USA Fund	15,830,832	21,797,271
Total Investments	417,770,732	404,827,309
Total Assets	424,289,062	411,324,056
Liabilities		
Administrative expense payable	67,848	64,231
Investment management fees payable	220,736	257,222
Pending trades - purchases	1,343,188	1,022,856
Amounts due broker under securities lending agreement	15,830,832	21,797,271
Total Liabilities	17,462,604	23,141,580
Net Position Restricted for Pensions	\$ 406,826,458	\$ 388,182,476

See accompanying notes to financial statements.

City of Grand Rapids Police and Fire Retirement System

Statements of Changes in Fiduciary Net Position

<i>Year ended December 31,</i>	2014	2013
Additions to Net Position		
Contributions		
Plan members	\$ 4,563,692	\$ 3,893,917
Employer	6,331,848	7,531,566
Total Contributions	10,895,540	11,425,483
Investment Income		
Interest and dividends	4,172,368	4,368,122
Net appreciation in fair value of investments	26,116,978	53,663,408
Net investment income	30,289,346	58,031,530
Less investment expense	(961,065)	(981,476)
Net Investment Income, less investment expense	29,328,281	57,050,054
Securities Lending Income		
Income	62,620	52,279
Expense	(15,065)	(18,282)
Net Securities Lending Income	47,555	33,997
Total Additions to Net Position	40,271,376	68,509,534
Deductions From Net Position		
Benefits	21,103,787	19,974,505
Administrative expenses	523,607	511,141
Total Deductions From Net Position	21,627,394	20,485,646
Net Increase in Net Position	18,643,982	48,023,888
Net Position Restricted for Pensions, beginning of year	388,182,476	340,158,588
Net Position Restricted for Pensions, end of year	\$ 406,826,458	\$ 388,182,476

See accompanying notes to financial statements.

City of Grand Rapids Police and Fire Retirement System

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) IRC 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 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. For private equity funds, commodities funds, real estate funds, and fixed income commingled funds, values are based on net asset values provided by underlying investment managers and/or their administrators.

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

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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 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. For the System, this standard has been adopted for the year ended December 31, 2014.

Subsequent Events

Subsequent events have been evaluated by management through May 12, 2015, 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. Benefits are established or amended via collective bargaining between City and System members. Benefit provisions are outlined in the City's ordinance and administered by Trustees. 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 13th 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

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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. 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 7.8% for Fire members and 11.2% for Police members for the period July 1, 2014 to December 31, 2014, and 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.

At December 31, 2014 and 2013, the System's membership consisted of the following:

<i>December 31,</i>	2014	2013
Retirees and beneficiaries receiving pension benefits	655	627
Terminated plan members entitled to but not receiving benefits	30	29
Active plan members	487	501
Total	1,172	1,157

Contributions

The City is required to contribute at an actuarially determined rate, calculated to be 19.07% of active member payroll for the period July 1, 2013 through June 30, 2014 and 16.31% for the period July 1, 2014 through December 31, 2014. The required rates were calculated to be 22.26% for the period January 1, 2013 through June 30, 2013.

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

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, 2014 and 2013 was \$38,502,780 and \$36,740,292, respectively.

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; 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, 2014 and 2013:

<i>Asset Class</i>	<u>Target Allocation</u>	
	2014	2013
U.S. equity	40%	40%
Fixed income	30	30
Non-U.S. equity	15	15
Real estate	5	5
Private equity	5	5
Commodities	5	5

The Board of Trustees voted at the Joint Board meeting of May 21, 2014 to further diversify the asset allocation per recommendation from the Asset Allocation Analysis provided by the System's investment consultant, Wilshire Associates. The portfolio was restructured to include allocations to Master Limited Partnerships (MLPs) and Treasury Inflation Protected Securities (TIPS) exposures.

For the years ended December 31, 2014 and 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.82% and 17.19% respectively. The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested.

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

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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, 2014 and 2013, no deposits or investments were subject 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, 2014, 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	\$ 2,000,271	\$ -	\$ -	\$ 358,918	\$ 1,641,353
Commercial mortgage-backed	5,172,089	-	450,486	-	4,721,603
Corporate bonds	20,695,717	711,573	12,062,316	2,987,113	4,934,715
Fixed income commingled funds	59,379,752	-	-	59,379,752	-
Government bonds	13,841,067	-	6,365,099	1,497,919	5,978,049
Government mortgage-backed	14,493,307	-	410,875	640,538	13,441,894
Government issued commercial mortgage-backed	458,924	-	458,924	-	-
Municipal/provincial bonds	648,191	-	410,332	65,165	172,694
Non-government backed CMOs	1,908,547	-	494,703	191,376	1,222,468
Securities lending collateral pool	15,830,832	15,830,832	-	-	-
Short-term investment funds	4,499,414	4,499,414	-	-	-
Total	\$ 138,928,111	\$ 21,041,819	\$ 20,652,735	\$ 65,120,781	\$ 32,112,776

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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	-	-	-
Total	\$ 120,438,564	\$ 25,876,792	\$ 13,191,492	\$ 56,542,214	\$ 24,828,066

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City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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, 2014 and 2013, the System held debt investments with the following credit ratings.

<i>December 31, 2014</i>	S&P Rating										AGY/TSY	Not Rated
	AAA	AA	A	BBB	BB	B	CCC	CC	D			
Asset-backed securities	\$ 477,536	\$ 351,522	\$ 64,000	\$ 107,610	\$ -	\$ -	\$ 577,807	\$ 48,489	\$ -	\$ -	\$ -	\$ 373,307
Commercial mortgage-backed	1,863,008	-	-	-	-	-	-	-	-	-	-	3,309,081
Corporate bonds	-	2,837,704	10,675,396	5,722,799	992,178	-	-	-	-	-	-	467,640
Fixed income commingled funds	-	-	59,379,752	-	-	-	-	-	-	-	-	-
Government bonds	-	-	-	97,950	-	-	-	-	-	-	13,743,117	-
Government mortgage-backed	-	-	-	-	-	-	-	-	-	-	14,493,307	-
Government issued commercial mortgage-backed	-	-	-	-	-	-	-	-	-	-	458,924	-
Municipal/provincial bonds	-	180,022	230,310	-	65,165	-	-	-	-	-	-	172,694
Non-government backed CMOs	-	45,108	-	25,051	-	-	545,560	-	75,997	-	-	1,216,831
Funds - short-term investment	-	-	4,499,414	-	-	-	-	-	-	-	-	-
Securities lending collateral pool	-	-	-	-	-	-	-	-	-	-	-	15,830,832
Total	\$ 2,340,544	\$ 3,414,356	\$ 74,848,872	\$ 5,953,410	\$ 1,057,343	\$ -	\$ 1,123,367	\$ 48,489	\$ 75,997	\$ 28,695,348	\$ 21,370,385	

<i>December 31, 2013</i>	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
Total	\$ 2,911,617	\$ 3,279,888	\$ 60,254,059	\$ 3,637,083	\$ 988,992	\$ 21,240	\$ 1,167,490	\$ 74,794	\$ 97,537	\$ 21,694,094	\$ 26,311,770	

Assets listed in the AGY/TSY columns 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, 2014 and 2013, 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 \$57,489,395 and \$58,609,527 as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, the System had the following foreign investments:

	Total	Equities	Preferred and Common Stock	Government Bonds	Partnership	Corporate Bonds
Fair Value in U.S. Dollars	\$ 68,593,057	\$ -	\$ 57,487,189	\$ 97,950	\$ 1,190,331	\$ 9,817,587

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

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

Securities Lending Risk

As of December 31, 2014, 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	\$ 2,673,083	\$ 2,739,216	\$ -	\$ -
U.S. government fixed	12,816,070	13,091,616	-	-
Total	\$ 15,489,153	\$ 15,830,832	\$ -	\$ -

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

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	-	-
Total	\$ 21,325,418	\$ 21,797,271	\$ -	\$ -

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

4. Capital Funding Commitment

At December 31, 2014 and 2013, the System 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.

	2014	2013
Adam Street Partners (2010)	\$ 1.9	\$ 3.0
Flag Capital	3.0	4.0
Adams Street Partners (2013)	3.8	4.6

5. Net Pension Liability

Net Pension Liability

The components of the net pension liability of the City of Grand Rapids at December 31, 2014, were as follows:

Total pension liability	\$ 403,969,869
Plan fiduciary net position	406,826,458
Net Pension Liability	\$ (2,856,589)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.71%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% - approximate
Salary increases	3.5% to 20.5% including inflation
Investment rate of return	7.36% (7.50% for groups receiving annual postretirement increases, 7.25% for groups participating in the 13 th Check program)

Mortality rates were based on the 1983 Group Annuity Male and Female Mortality Tables set back three years for males and two years for females.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is determined by the Board of Trustees. A formal review of the assumed rate of return expectation occurs every five years in conjunction with the System's actuarial experience study. During the interval between experience studies, the expectation is tested through occasional asset allocation studies conducted by the System's investment consultant. The asset allocation study utilizes the consultant's annually

City of Grand Rapids Police and Fire Retirement System

Notes to Financial Statements

generated, ten-year forward looking, nominal geometric expected rate of return for various asset classes and historical measures of asset class risk and correlation. Historically, the Board, with the support of its consultants, has chosen not to react to short-term changes in expected returns by changing the long-term expected rate of return, but rather has used those changing market expectations as an opportunity to adjust the asset allocation and investment structure to seek either better returns or lower volatility. The last change in the rate of return expectation occurred in 2010 in connection with a change in post-retirement benefit payments. Current expectations are that returns net of investment fees will be 7.50% with a reduction in return of 0.25% for the assets funding the 13th Check program.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation of December 31, 2014 (see the discussion of the System's investment policy) are summarized in the following table:

Investment Consultant (1)	Investment Consultant Expected Nominal Return (2)	Investment Consultant Inflation Assumption (3)	Expected Real Return (2)-(3) (4)	Actuary Inflation Assumption (5)	Expected Nominal Return (4)+(5) (6)	Administrative Expenses (7)	Expected Nominal Return Net of Expenses (6)-(7) (8)	Standard Deviation of Expected Return (1-Year) (9)
1	6.91%	3.00%	3.91%	3.00%	6.91%	0.20%	6.71%	12.70%
2	6.86	2.75	4.11	3.00	7.11	0.20	6.91	12.00
3	6.83	2.50	4.33	3.00	7.33	0.20	7.13	12.50
4	6.89	2.22	4.66	3.00	7.66	0.20	7.46	11.50
5	7.40	2.20	5.20	3.00	8.20	0.20	8.00	13.10
6	7.65	2.25	5.40	3.00	8.40	0.20	8.20	13.50
7	7.69	2.26	5.43	3.00	8.43	0.20	8.23	11.80
8	8.09	2.50	5.59	3.00	8.59	0.20	8.39	13.00
Average	7.29%	2.46%	4.83%	3.00%	7.83%	0.20%	7.63%	12.51%

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on System investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability, calculated using a single discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher:

1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
\$ 45,517,797	\$ (2,856,589)	\$ (43,490,606)

Required Supplementary Information

City of Grand Rapids Police and Fire Retirement System

Required Supplementary Information Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

Year ended December 31, 2014

Total Pension Liability	
Service cost	\$ 7,794,219
Interest on the total pension liability	28,440,421
Changes in benefit terms	-
Difference between expected and actual experience of the total pension liability	2,978,624
Assumption changes	-
Benefit payments	(21,079,038)
Refunds	(24,749)
<hr/>	
Net Change in Total Pension Liability	18,109,477
Total Pension Liability, beginning	385,860,392
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Total Pension Liability, ending (a)	\$ 403,969,869
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Plan Fiduciary Net Position	
Contributions - employer	\$ 6,331,848
Contributions - member	4,563,692
Pension plan net investment income	29,390,902
Benefit payments	(21,079,038)
Refunds	(24,749)
Pension plan administrative expense	(523,607)
Other	(15,065)
<hr/>	
Net Change in Plan Fiduciary Net Position	18,643,983
Plan Fiduciary Net Position, beginning	388,182,475
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Plan Fiduciary Net Position, ending (b)	\$ 406,826,458
<hr/>	
Net Pension Liability - Ending (a) - (b)	\$ (2,856,589)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.71%
Covered Employee Payroll	\$ 35,710,964
Net Pension Liability as a Percentage of Covered Employee Payroll	(8.00)%

City of Grand Rapids Police and Fire Retirement System

Required Supplementary Information Schedule of Employer Contributions

<i>Year ended</i> <i>December 31,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 6,331,848	\$ 6,331,848	-	\$ 35,710,964	17.73%
2013	7,531,566	7,531,566	-	33,110,530	22.75%
2012	8,194,227	8,194,227	-	33,970,131	24.12%
2011	7,851,051	7,851,051	-	34,566,692	22.71%
2010	3,709,786	3,709,786	-	34,665,767	10.70%
2009	-	-	-	33,490,487	0.00%
2008	-	-	-	33,004,358	0.00%
2007	-	-	-	32,857,305	0.00%
2006	-	-	-	33,887,922	0.00%
2005	192,259	192,259	-	33,407,682	0.58%

Valuation Date

Actuarially determined contribution rates are calculated as of December 31, which is one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years per City Commission
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.5% --approximate; no explicit price inflation assumption is used in this valuation.
Salary Increases	3.5% to 20.5% including inflation.
Investment Rate of Return	7.36% (7.50% for groups receiving annual post-retirement increases, 7.25% for groups participating in the 13 th Check program).
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	1983 Group Annuity Male and Female Mortality Tables set back three years for males and two years for females.

Other Information

There were no benefit changes during the year.

City of Grand Rapids Police and Fire Retirement System
Required Supplementary Information
Schedule of Investment Returns
Annual Money-Weighted Rate of Return, Net of Investment Expense
Last Five Years

2014	2013	2012	2011	2010
7.82%	17.19%	15.21%	0.46%	17.23%

City of Grand Rapids Police and Fire Retirement System

Required Supplementary Information Schedule of the Employers' Net Pension Liability

<i>Year ended</i>	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
<i>December 31,</i>						
2014	\$ 403,969,869	\$ 406,826,458	\$ (2,856,589)	100.71%	\$ 35,710,964	(8.00)%



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, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated May 12, 2015.

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

May 12, 2015