



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

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**Financial Statements**  
Years Ended December 31, 2005 and 2004



**BDO Seidman, LLP**  
Accountants and Consultants



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

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**Financial Statements**  
Years Ended December 31, 2005 and 2004

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## **Independent Auditors' Report**

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

We have audited the accompanying statement of plan net assets of the City of Grand Rapids Police and Fire Retirement System as of December 31, 2005 and 2004 and the related statement of changes in plan net assets for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Rapids Police and Fire Retirement System as of December 31, 2005 and 2004 and the changes in plan net assets for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

*BDO Seidman, LLP*

Grand Rapids, Michigan  
March 8, 2006

## City of Grand Rapids Police and Fire Retirement System Management's Discussion and Analysis

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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 retirement system for the fiscal year ended December 31, 2005 with selected comparative information for the fiscal year ended December 31, 2004. This discussion has been prepared by management along with the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements. The 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.

### Using the Financial Statements

The System's financial report includes two financial statements: Statements of Plan Net Assets and Statements of Changes in Plan Net Assets. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Plan Net Assets present all of the System's assets and liabilities with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The Statements of Changes in Plan Net Assets show how the System's net assets changed during the year. These two statements should be reviewed along with the Schedule of Funding Progress and the Schedule of Employer Contributions.

### Statement of Plan Net Assets

A summarized comparison of the System's assets, liabilities and plan net assets at December 31, 2005 and December 31, 2004 is as follows:

	<u>12/31/2005</u>	<u>12/31/2004</u>
Assets:		
Investments	\$ 360,925,623	\$ 344,328,657
Receivables	<u>14,220,692</u>	<u>11,075,768</u>
Total assets	375,146,315	355,404,425
Liabilities	<u>48,120,428</u>	<u>32,015,084</u>
Net assets held in trust for pension benefits	<u>\$ 327,025,887</u>	<u>\$ 323,389,341</u>

## **City of Grand Rapids Police and Fire Retirement System Management's Discussion and Analysis**

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System total assets as of December 31, 2005 were \$375,146,315 and were mostly comprised of cash, investments, receivables for interest and dividends, and contributions due from members and the City of Grand Rapids. Of this amount, \$26,931,545 represents collateral held by a broker under the system's securities lending program. Total assets increased \$19,741,890 from the prior year, primarily due to favorable investment returns and a higher value of securities out on loan on December 31, 2005.

Total liabilities as of December 31, 2005 were \$48,120,428 and were comprised of administrative expenses and investment management fees due after the close of the fiscal year, and pending trades (purchases). Securities on loan under the system's securities lending program represent \$26,931,545 of the liability amount. Total liabilities increased \$16,105,344 from the prior year, with most of the increase attributable to pending trades (purchases).

Because the number of securities out on loan under the system's securities 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. The increase in assets caused by securities lending will always be offset by a corresponding liability in the same amount, so that the two amounts cancel each other out. Securities lending income is used to offset the system's custody and benefit payment expenses.

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## City of Grand Rapids Police and Fire Retirement System Management's Discussion and Analysis

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### Statements of Changes in Plan Net Assets

A summarized comparison of the System's additions, deductions, and changes in plan net assets for the years ended December 31, 2005 and December 31, 2004, is as follows:

	<u>12/31/2005</u>	<u>12/31/2004</u>
Additions:		
Contributions	\$ 2,344,331	\$ 3,259,586
Net investment income	<u>17,944,454</u>	<u>34,722,336</u>
 Total additions	 20,288,785	 37,981,922
Deductions:		
Benefits	16,247,906	16,030,312
Administrative expense	<u>404,333</u>	<u>407,488</u>
 Total deductions	 <u>16,652,239</u>	 <u>16,437,800</u>
 Net increase	 3,636,546	 21,544,122
Net assets held in trust for pension benefits:		
Beginning of year	<u>323,389,341</u>	<u>301,845,219</u>
 End of year	 <u>\$ 327,025,887</u>	 <u>\$ 323,389,341</u>

### Revenues – Additions to Plan Net Assets

Revenue sources include employer contributions, as necessary, member contributions, earnings on investments, and securities lending income. Contributions, investment income, and securities lending income for the fiscal year ended December 31, 2005 totaled \$20,288,785.

Total member contributions decreased from the previous period by \$379,760 and employer contributions decreased by \$535,495. Investment income decreased from the previous year by \$16,751,283, primarily due to a lower rate of return on investments than experienced during the prior year. Securities lending income increased from the previous year by \$20,405.

## **City of Grand Rapids Police and Fire Retirement System Management's Discussion and Analysis**

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### **Expenses – Deductions From Plan Net Assets**

The primary expenses of the retirement system include the payment of pension benefits to members and beneficiaries, refunds of contributions and interest to former members, and the cost of administering the system. Total deductions, including investment management fees, for the fiscal year ended December 31, 2005 were \$17,747,816; of this, payments for retirement benefits were \$16,247,906, an increase of \$217,594 over the previous year.

Differences in benefit payments can occur for various reasons, including fluctuations in the 13<sup>th</sup> check distribution amount from year to year, and the number of active members who terminate employment and withdraw their contributions during the year.

### **Other Retirement System Activities**

No investment managers or other service providers were terminated during the year.

The System's performance consultant, Wilshire Associates, reported a market rate of return of 5.97% on retirement system assets for the year ending December 31, 2005. Had the assets all been invested passively, the return would have been 6.10%, which means that retirement system assets underperformed their benchmark by 0.13%.

### **System as a Whole**

Management believes, and actuarial studies support, 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.

### **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.



**Public Pension Coordinating Council**  
**Public Pension Standards**  
**2005 Award**

Presented to

**City of Grand Rapids**  
**Police & Fire Retirement System**

In recognition of meeting professional standards for  
plan design and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

**City of Grand Rapids Police and Fire Retirement System  
Statement of Plan Net Assets**

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<i>As of December 31,</i>	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
<b>Cash and Money Market Funds</b>	<b>\$ 3,616,151</b>	<b>\$ 3,979,657</b>
<b>Investments at Fair Value</b>		
United States government obligations	<b>59,154,465</b>	45,734,521
Asset backed securities	<b>21,425,851</b>	15,474,089
State and municipal bonds	<b>488,437</b>	653,308
Corporate bonds	<b>30,830,745</b>	29,852,161
Common stocks and equity mutual funds	<b>201,367,264</b>	207,401,942
Partnerships	<b>17,111,165</b>	16,424,362
Investments held by broker under securities lending	<b>26,931,545</b>	24,808,617
<b>Total Cash and Investments</b>	<b>360,925,623</b>	344,328,657
<b>Receivables</b>		
Employer contributions	-	32,198
Plan member contributions	<b>158,935</b>	180,177
Interest and dividends	<b>1,100,248</b>	1,023,565
Pending trades - sales	<b>12,961,509</b>	9,839,828
<b>Total Receivables</b>	<b>14,220,692</b>	11,075,768
<b>Total Assets</b>	<b>375,146,315</b>	355,404,425
<b>Liabilities</b>		
Administrative expenses payable	<b>54,781</b>	56,548
Investment management fees payable	<b>185,378</b>	187,448
Pending trades - purchases	<b>20,948,724</b>	6,962,471
Liabilities under securities lending	<b>26,931,545</b>	24,808,617
<b>Total Liabilities</b>	<b>48,120,428</b>	32,015,084
<b>Net Assets Held in Trust for Pension Benefits</b>		
(a schedule of funding progress is presented in Note 4)	<b>\$ 327,025,887</b>	<b>\$ 323,389,341</b>

*See accompanying notes to financial statements.*

**City of Grand Rapids Police and Fire Retirement System**  
**Statement of Changes in Plan Net Assets**

<i>Year ended December 31,</i>	<b>2005</b>	<b>2004</b>
<b>Additions</b>		
<b>Contributions</b>		
Employer	\$ 192,259	\$ 727,754
Plan members	2,152,072	2,531,832
<b>Total Contributions</b>	<b>2,344,331</b>	<b>3,259,586</b>
<b>Investment Income</b>		
Net appreciation in fair value of investments	13,120,734	30,280,342
Interest and dividends	5,882,548	5,474,223
<b>Total Investment Income</b>	<b>19,003,282</b>	<b>35,754,565</b>
<b>Less Investment Expense</b>	<b>1,095,577</b>	<b>1,048,573</b>
<b>Net Income From Investing Activities</b>	<b>17,907,705</b>	<b>34,705,992</b>
<b>Securities Lending</b>		
Income	56,511	25,133
Expense	(19,762)	(8,789)
<b>Net Income From Securities Lending</b>	<b>36,749</b>	<b>16,344</b>
<b>Net Investment Income</b>	<b>17,944,454</b>	<b>34,722,336</b>
<b>Total Additions</b>	<b>20,288,785</b>	<b>37,981,922</b>
<b>Deductions</b>		
Benefits	16,247,906	16,030,312
Administrative expenses	404,333	407,488
<b>Total Deductions</b>	<b>16,652,239</b>	<b>16,437,800</b>
<b>Net Increase</b>	<b>3,636,546</b>	<b>21,544,122</b>
<b>Net Assets Held in Trust for Pension Benefits,</b> beginning of the year	<b>323,389,341</b>	<b>301,845,219</b>
<b>Net Assets Held in Trust for Pension Benefits,</b> end of the year	<b>\$ 327,025,887</b>	<b>\$ 323,389,341</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

#### **Basis of Accounting**

The City of Grand Rapids Police and Fire Retirement System (the System) financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment 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.

#### **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.

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 most significant requirements as they impact the System are:

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

#### **Use of Estimates**

The preparation of the System's financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the actuarial present value of accumulated plan benefits as of the benefit information date, the changes in net assets available for benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

# City of Grand Rapids Police and Fire Retirement System

## Notes to Financial Statements

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### Risks and Uncertainties

Plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as interest rate, market and credit. 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.

## 2. Description of the System

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 of Grand Rapids. Benefit provisions are established and amended by City ordinance. The System is a component unit of the City of Grand Rapids.

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 service. Fire members may elect to retire after attaining age 55 and completing 10 years of service or upon attainment of their credited service cap; police members may elect to retire after attaining age 50 and completing 10 years of service. The yearly allowance, payable monthly for life to the retired member, equals 2.7% of final average compensation times years of credited service, up to the applicable allowance cap. For purposes of benefit calculations, the final average compensation is based on the member's three highest consecutive compensated calendar years of credited service, provided no such rates of salary occur in a calendar year after the calendar year in which the employee attains the number of years of credited service which, when multiplied by the applicable benefit multiplier, equals the allowance cap, increased by 12.7% for fire members and 12.8% for police members.

Based on the most recent actuarial valuation, the System's membership was as follows:

<i>December 31,</i>	<b>2005</b>	2004
Retirees and beneficiaries receiving benefits	<b>617</b>	618
Terminated employees entitled to but not yet receiving benefits	<b>15</b>	8
Active plan members	<b>576</b>	583
Total	<b>1,208</b>	1,209

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

### **Notes to Financial Statements**

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The City is required to contribute at an actuarially determined rate, which was calculated to be 1.08% for the period January 1, 2005 through June 30, 2005. No employer contributions were required for the period July 1, 2005 through December 31, 2005. Plan member contributions, which are required by ordinance, are based on compensation. Contributions range from 3.20% to 8.86% of compensation paid by the City, depending on job classification 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 the System, in lieu of any pension rights they may have.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2005 was \$23,388,950.

### **3. Deposits and Investments**

#### **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 (Lehman 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, 2005, the City of Grand Rapids Police and Fire Retirement System had the following investments and maturities.

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**City of Grand Rapids Police and Fire Retirement System**  
**Notes to Financial Statements**

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**Investment Maturities - in Years**

<i>Investment Type</i>	Fair Value	Less Than 1	1-6	6-10	10+	Maturity Not Determined
Asset backed securities	\$ 10,754,923	\$ -	\$ 2,583,798	\$ 250,187	\$ 7,920,938	\$ -
Commercial mortgage backed	2,016,839	-	-	-	2,016,839	-
Corporate bonds	30,830,745	1,514,702	9,229,406	8,217,899	6,182,811	5,685,927
Fixed inc. derivatives - futures	7,140,422	7,140,422	-	-	-	-
Fixed inc. derivatives - options	48,901	48,901	-	-	-	-
Government agencies	5,458,061	-	3,566,743	1,410,829	480,489	-
Government bonds	16,667,547	2,298,546	2,279,141	89,959	11,999,901	-
Government mortgage backed	33,463,684	-	289,807	3,384,206	11,059,951	18,729,720
Index linked government bonds	3,565,173	-	1,720,242	197,061	1,647,870	-
Municipal/provincial bonds	488,437	-	-	67,870	420,567	-
Non-government backed - CMOs	8,654,089	-	-	-	8,654,089	-
Short-term bills and notes	49,190	49,190	-	-	-	-
Short-term investment funds	3,366,382	-	-	-	-	3,366,382
<b>Total</b>	<b>\$122,504,393</b>	<b>\$ 11,051,761</b>	<b>\$ 19,669,137</b>	<b>\$ 13,618,011</b>	<b>\$ 50,383,455</b>	<b>\$ 27,782,029</b>

The country of risk for all of the non-government backed CMOs is the United States. The earliest maturity date is June 25, 2018 and the latest maturity date is August 25, 2045.

**Credit Risk**

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The fixed income portfolio invests in both investment grade bonds as well as high yield bonds. However the overall credit rating for the composite is not to be below an “A” rating. As of December 31, 2005, the System had the following credit ratings:

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**City of Grand Rapids Police and Fire Retirement System**  
**Notes to Financial Statements**

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<i>Investment Type</i>	Lowest Moody Rating	Lowest S&P Rating
Asset backed securities	Baa2	BB+
Commercial mortgage backed	Aaa	AAA
Corporate bonds	Caa1	B-
Government agencies	Aaa	AAA
Government bonds	Baa2	BBB
Government mortgage backed securities	AGY	AGY
Index linked government bonds	Aaa	AAA
Municipal/provincial bonds	Baa3	BBB
Non-government backed CMOs	Baa1	BBB+

***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, 2005, no single holding within this portfolio represented more than 5% of the total investments.

***Custodial Credit Risk***

Custodial credit risk for investments is the risk that in the event of the failure of the counter-party to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. This portfolio will minimize custodial credit risk by limiting investments to those permitted by Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq), 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; n) Warrants.

In addition, the City of Grand Rapids Police and Fire Retirement System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq); support the overall investment policies of the System; understand and accept their designated “role” within the System’s investment structure;

## City of Grand Rapids Police and Fire Retirement System

### Notes to Financial Statements

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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 this Investment Policy Statement. As of December 31, 2005, \$49,190 of short-term bills and notes was exposed to custodial credit risk because they were not custodied by Northern Trust.

#### 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. As of December 31, 2005, the System had the following foreign investments:

<i>Investment Type</i>	Currency Denomination	U.S. Dollar Amount
Common stock	Canada	\$ 470,556
	Multi-National Agencies Region	51,609,958
Government bonds	Mexico	818,700
	Russian Federation	22,545
Corporate bonds	Australia	373,385
	Canada	134,087
	Cote D'Ivoire	79,743
	Hong Kong	235,465
	Italy	67,019
	Mexico	287,750
	Netherlands	434,576
	Republic of Korea	346,094
	United Kingdom	479,072
		\$ 55,358,950

## City of Grand Rapids Police and Fire Retirement System

### Notes to Financial Statements

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#### Securities Lending Risk

As of December 31, 2005, the System had the following investments:

<i>Investment Type</i>	Fair Value of Loaned Securities Collateralized by		Fair Value of Loaned Securities Collateralized	
	Cash	Cash Collateral	Cash Collateral	by Non-Cash Collateral
U.S. agencies	\$ 319,844	\$ 327,578	\$ 2,631,276	\$ 2,696,428
U.S. corporate fixed	5,961,330	6,122,833	415,977	425,931
U.S. equities	2,402,787	2,469,802	-	-
U.S. government fixed	17,587,892	18,011,331	2,640,240	2,702,873
<b>Total</b>	<b>\$ 26,271,853</b>	<b>\$ 26,931,544</b>	<b>\$ 5,687,493</b>	<b>\$ 5,825,232</b>

Public Act 314 permits, and Trustees have implemented a Securities Lending program whereby the System, through The Northern Trust Company (NT), 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 NT to utilize the Core U.S.A. Collateral Section in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The System receives cash, letters of credit, or government securities as collateral for loans of their securities to approved borrowers. Initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and the collateral are denominated in different currencies. At fiscal year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. NT shall 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 either 1) NT fails to make a reasonable determination of the creditworthiness of a borrower, 2) NT fails to 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) NT fails to 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 NT and is 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, NT 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

**City of Grand Rapids Police and Fire Retirement System**  
**Notes to Financial Statements**

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restrictions on the amount of the loans that can be made. Cash collateral may also be invested separately in “term loans”, in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

**4. Supplementary Information**

*Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
6/30/2000	\$310,502,184	\$238,351,701	\$(72,150,483)	130 %	\$29,875,819	- %
6/30/2001	305,328,814	249,233,407	(56,095,407)	123	31,772,454	-
6/30/2002	287,125,896	265,750,488	(21,375,408)	108	32,508,791	-
6/30/2003	270,208,638	276,876,491	6,667,853	98	33,543,566	20
12/31/2003	301,845,219	276,065,502	(25,779,717)	109	33,101,130	-
12/31/2004	315,021,806	285,041,937	(29,979,869)	111	32,543,780	-
12/31/2005	325,044,112	284,262,073	(40,782,039)	114	33,407,682	-

*Schedule of Employer Contributions*

Fiscal Year/ Period Ended	Annual Required Contribution	Percentage Contributed
6/30/2000	\$ -	N/A
6/30/2001	-	N/A
6/30/2002	-	N/A
6/30/2003	-	N/A
12/31/2003	525,966	100%
12/31/2004	727,754	100
12/31/2005	192,259	100

*The remainder of this page intentionally left blank.*

## City of Grand Rapids Police and Fire Retirement System

### Notes to Financial Statements

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The information presented in the supplementary schedules above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

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Valuation date	December 31, 2005
Actuarial cost method	Individual entry age
Amortization method	Level percent, open
Remaining amortization period	15 years
Asset valuation method	2-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.0% - 21.0%

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\* Includes inflation at 4% and cost of living adjustment