Kent County Voluntary Employees' Beneficiary Association

Year Ended December 31, 2021

Financial Statements

Rehmann

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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Rehmann

INDEPENDENT AUDITORS' REPORT

June 10, 2022

Members of the Board of Trustees of the
Kent County Voluntary Employees' Beneficiary Association
Grand Rapids, Michigan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the ***Kent County Voluntary Employees' Beneficiary Association*** (the "VEBA", a fiduciary component unit of the County of Kent, Michigan) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the VEBA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Kent County Voluntary Employees' Beneficiary Association, as of December 31, 2021, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the VEBA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the VEBA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit 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 VEBA's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the VEBA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and schedules for the other postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 10, 2022, on our consideration of the VEBA'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 solely 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 the effectiveness of the VEBA's 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 VEBA's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Management's Discussion and Analysis

The following is a discussion and analysis of the financial performance and position of the Kent County Voluntary Employees' Beneficiary Association ("VEBA") which accounts for the County of Kent, Michigan's (the "County") single-employer defined benefit other postemployment benefits healthcare plan for the year ended December 31, 2021. This analysis should be read in conjunction with the *Independent Auditors' Report* and with the financial statements, which follow this section.

Financial Highlights

- VEBA assets exceeded liabilities at December 31, 2021 by $48,174,698 (reported as *net position).*
- The VEBA's funding objective is to meet its long-term benefit obligations through contributions and investment income. At December 31, 2021, the funded ratio was 70.85%.
- Additions to net position for the year ended December 31, 2021, were $10,200,015 which is comprised of contributions of $4,013,451, implicit rate subsidy of $1,420,950, net investment income of $4,759,318, and other revenues of $6,296.
- Deductions from net position decreased 1.9% from 2020 to 2021 (from $3,385,386 to $3,322,208), and were comprised primarily of healthcare subsidies paid to insurance providers on behalf of plan members and the implicit rate subsidy.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

This report consists of two financial statements: the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position.* These financial statements report information about the VEBA, as a whole, and about its financial condition that should help answer the question: Is the VEBA better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid. The *Statement of Fiduciary Net Position* presents all of the VEBA'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 VEBA's financial position is improving or deteriorating. The *Statement of Changes in Fiduciary Net Position* presents how the VEBA's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the *Schedule of Changes in the County's Net OPEB Liability and Related Ratios, the Schedule of the Net OPEB Liability, the Schedule of Contributions, and the Schedule of Investment Returns* (presented after the footnotes as required supplementary information) to determine whether the VEBA is becoming financially stronger or weaker and to understand changes over time in the funded status of the VEBA.

Financial Analysis

Total assets as of December 31, 2021 and 2020, were $48,663,149 and $41,774,808, respectively, and were comprised mainly of investments and receivables. Total assets increased $6,888,341 or 16.5% from December 31, 2020 to December 31, 2021, primarily due to advance funding based on actuarial calculations and investment returns.

Management's Discussion and Analysis

	Net Position	
	December 31,	
	2021	2020
Assets		
Cash	$ 656,720	$ 2,023,378
Receivables	252,519	389,112
Investments	47,753,910	39,362,318
Total assets	48,663,149	41,774,808
Liabilities		
Accounts payable	488,451	477,917
Net position	$ 48,174,698	$ 41,296,891

Additions to Fiduciary Net Position

The reserves needed to finance postemployment healthcare benefits are accumulated primarily through the collection of employer contributions and earnings on investments. Additions to fiduciary net position for 2021 and 2020 totaled $10,200,015 and $11,947,418, respectively.

Total additions to fiduciary net position decreased $1,747,403 from 2020 to 2021, primarily due to a decrease in contributions.

Deductions from Fiduciary Net Position

The primary expenses of the VEBA include the healthcare stipends paid on behalf of members and beneficiaries and costs of administering the Plan. Total deductions for fiscal years 2021 and 2020 were $3,322,208 and $3,385,386, respectively.

Management's Discussion and Analysis

	Changes in Net Position	
	Year Ended December 31,	
	2021	2020
Additions		
Contributions	$ 4,013,451	$ 5,429,793
Contributions - implicit rate subsidy	1,420,950	1,479,987
Net investment income	4,759,318	5,037,638
Other revenues	6,296	-
Total additions	10,200,015	11,947,418
Deductions		
Benefit payments	1,840,704	1,845,545
Benefit payments - implicit rate subsidy	1,420,950	1,479,987
Administrative expenses	60,554	59,854
Total deductions	3,322,208	3,385,386
Change in net position	6,877,807	8,562,032
Net position, beginning of year	41,296,891	32,734,859
Net position, end of year	$ 48,174,698	$ 41,296,891

Economic Factors, Investment Returns, and Other Important Matters

- The stock market is a principal investment forum utilized by the VEBA, therefore the market's volatility will have either a positive or negative impact on net position. The purpose of the VEBA is to provide long-term benefits through long-term investing. The investment policy is set up to achieve this long-term objective. The VEBA carefully monitors investment performance to achieve acceptable investment results.
- The estimated cash contribution rate for 2022 is 1.57% of covered payroll.
- While the exact circumstances and impact of a world-wide pandemic could not have been anticipated, the VEBA board takes a long-term investment approach that not only provides for growth but also down-side protection. As a result, impacts to the markets due to COVID-19 did not warrant a reactionary change in investment philosophy or asset allocation. Close contact with the investment consultant continues to be maintained as it is in any market environment. Should changes to asset allocation be warranted in the future, those changes will be implemented with a thoughtful, strategic approach as it has historically been done.

Management's Discussion and Analysis

Contacting the VEBA's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of the VEBA's financial position. If you have questions about this report or need additional financial information, contact Jeff Dood, Fiscal Services Director, County of Kent, 300 Monroe Ave. NW, Grand Rapids, MI 49503-2221.

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FINANCIAL STATEMENTS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Fiduciary Net Position

December 31, 2021

Assets		
Cash		$ 656,720
Receivables		252,519
Investments, at fair value:		
Domestic equity mutual funds	$ 20,028,032	
International equity mutual funds	9,650,273	
Domestic fixed income mutual funds	6,501,313	
International fixed income mutual funds	8,821,178	
Real estate securities	2,753,114	
Total investments		47,753,910
Total assets		48,663,149
Liabilities		
Accounts payable		488,451
Net position restricted for other postemployment benefits		$ 48,174,698

The accompanying notes are an integral part of these basic financial statements.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2021

Additions		
Contributions:		
Employer contributions	$ 4,013,451	
Employer contributions - implicit rate subsidy	1,420,950	
Total contributions		$ 5,434,401
Investment earnings:		
Net appreciation in fair value of investments	3,777,644	
Interest and dividends	1,103,847	
Total investment earnings	4,881,491	
Investment expense	(122,173)	
Net investment earnings		4,759,318
Other revenues		6,296
Total additions		10,200,015
Deductions		
Benefit payments		1,840,704
Benefit payments - implicit rate subsidy		1,420,950
Administrative expenses		60,554
Total deductions		3,322,208
Change in net position		6,877,807
Net position, beginning of year		41,296,891
Net position, end of year		$ 48,174,698

The accompanying notes are an integral part of these basic financial statements.

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. PLAN DESCRIPTION

The Kent County Voluntary Employees’ Beneficiary Association ("VEBA") is a single-employer defined benefit postemployment healthcare plan (the "Plan") established by the County of Kent, Michigan (the "County") and is administered by a five member board called the Kent County Voluntary Employees' Beneficiary Association Board of Trustees. The Board is comprised of the County Administrator/Controller, the County Treasurer, the Director of the County's Fiscal Services Department and two other County employees appointed by the Chair of the Kent County Board of Commissioners. The VEBA provides health insurance benefits to certain retirees or their beneficiaries, which are advance funded on an actuarial basis. Retirees and their beneficiaries are eligible for postemployment healthcare, dental and vision benefits if they are receiving a pension from the Kent County Employees' Retirement Plan.

The VEBA is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan. The VEBA is included as a fiduciary component unit of the County because (1) the VEBA is a legally separate entity; (2) the County Board of Commissioners appoints a voting majority of the VEBA Board; and (3) the County makes contributions to the VEBA on behalf of its participants.

VEBA membership consisted of the following at December 31, 2021:

Retirees and beneficiaries currently receiving benefits	746
Active participants	1,546
Total membership	2,292

Benefits Provided

The County provides a fixed monthly dollar subsidy of up to $400 ($350 for retirees before December 31, 2018) to be used by retirees toward health insurance premiums in a County-sponsored insurance plan. In addition, the County provides an implicit subsidy due to having one premium based on a blended rate that treats current employees, retirees, eligible beneficiaries and dependents as one homogeneous group. The implicit subsidy is factored into the actuarial computation of the OPEB liability. Effective 2016, the Collective Bargaining groups have begun to place retirees into separate groups for premium rating purposes for employees who were hired on or after January 1, 2016 (January 1, 2015 for Circuit Court Referees, FOP and Teamsters Parks; and July 1, 2016 for TPOAM and KCDSA).

Contributions

The contribution requirements of VEBA members and the County are established and may be amended by the County Board of Commissioners, in accordance with County policies, union contracts, and Plan provisions. The VEBA covers the Management Pay Plan, both exempt and non-exempt employees, elected officials, and ten collective bargaining units. Normal retirement eligibility is summarized as follows:

VEBA members hired through December 31, 2010 are eligible to receive benefits at age 60 with 5 years of service or 25 years of service regardless of age. Military service may be purchased.

VEBA members hired on or after January 1, 2011, are eligible for benefits at age 62 with 5 years of service or age 60 (age 55 for Captains/Lieutenants) with 25 years of service, for the following groups: MPP, Judges, Elected Officials, Commissioners, UAW, TPOAM, and Prosecuting Attorneys.

VEBA members hired on or after January 1, 2012, are eligible for benefits at age 62 with 5 years of service or age 60 with 25 years of service, for the following groups: Teamsters-Parks, Teamsters-PHN, and Circuit Court Referees.

VEBA members of the KCDSA bargaining unit hired on or after January 1, 2013, are eligible for benefits at age 60 with 5 years of service or age 50 with 25 years of service.

VEBA members of the FOP bargaining unit hired on or after January 1, 2015, are eligible for benefits at age 60 with 5 years of service or age 50 with 25 years of service.

The subsidy is prorated for service less than 25 years. An employee that retirees at age 55 or older with 15 or more years of service is eligible for the subsidy under the early retirement option, prorated for service less than 25 years. Employees who retire under a duty disability retirement are immediately eligible.

Retirees are responsible for reimbursing the County for the cost of premiums for the selected level of coverage in excess of the subsidy. The retiree's share of premiums can be deducted automatically from their monthly pension distribution, or paid directly to the County Treasurer. Since retirees must participate in one of the County's health insurance plans in order to receive the benefit, the entire cost of retiree healthcare premiums is accounted for in the County's health insurance internal service fund. Retiree reimbursements are reported as operating revenue in the internal service fund. On a quarterly basis, the total amount of retiree subsidies for the previous period is billed to the VEBA. This portion of premium costs, which includes the County subsidy only, comprises the entire amount of benefit payments in the Statement of Changes in Fiduciary Net Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The VEBA’s financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments and Income Recognition

VEBA 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 for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Kent County VEBA Board of Trustees, with the assistance of a valuation service.

Notes to Financial Statements

Administration

Administrative costs are financed through the VEBA's investment earnings.

Receivables

Receivables represent contributions due to the VEBA from active employees, but not paid until after year-end.

Use of Estimates

The preparation of the 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 at the date of the financial statements and the actuarial present value of accumulated benefits as of the benefit information date, the changes in net position 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.

Risk and Uncertainties

Contributions and the actuarial present value of accumulated 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 credit, custodial credit, concentrations, foreign currency fluctuations, and interest rates. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in these estimates, assumptions and risks in near-term would be material to the financial statements.

3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the VEBA's deposits might not be returned. The VEBA has a demand money market account with one financial institution. As of year-end, $406,720 of the VEBA's bank balance of $656,720 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The VEBA is authorized by the Michigan Public Employees Retirement Systems' Investment Act 314 of 1965, as amended, to invest in stocks, government and corporate securities, mortgages, and various other instruments, subject to certain limitations. The VEBA's Board of Trustees is responsible for adopting the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the VEBA.

Notes to Financial Statements

The VEBA's investments are held in eight portfolios administered by various investment managers. Following is a summary of the VEBA's investments (at fair value, as determined by quoted market price) as of December 31, 2021:

Investments at fair value	
Domestic equity mutual funds	$ 20,028,032
International equity mutual funds	9,650,273
Domestic fixed income mutual funds	6,501,313
International fixed income mutual funds	8,821,178
Real estate securities	2,753,114
Total investments	$ 47,753,910

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The VEBA's investment policy requires that bonds have a minimum quality rating of BBB-/Baa3 at the time of purchase. The overall portfolio is expected to maintain an average credit quality of A- or higher. Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund. The VEBA's investment in mutual funds and real estate securities are not subject to credit risk rating.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the VEBA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Open-end mutual funds and real estate securities are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the VEBA's investment in a single issuer. For core fixed income portfolios, the VEBA's Investment Policy provides that, with the exception of the U.S. government, agencies and U.S. government sponsored (GSE's), no more than 3% of the portfolio shall be invested in the obligations of any one issuer. For the VEBA's large cap equity portfolio, no single company's security should represent more than 2% plus the benchmark weight at the time of purchase of the individual manager's portfolio. At December 31, 2021, none of the VEBA's mutual funds were invested in a single issuer exceeding the policy limits.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The VEBA mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. The County monitors its exposure to foreign currency risk through a quarterly performance report. The VEBA's exposure to foreign currency risk as of December 31, 2021 was $18,471,451. This amount was comprised of international equity mutual funds and international fixed income mutual funds denominated in U.S. dollars.

Notes to Financial Statements

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The VEBA’s policy provides for its fixed income portfolio to have an average duration of no more than 120% of the duration of the stated benchmark (which varies by portfolio). Investments in equity mutual funds and real estate securities are comprised of securities with no stated maturity date. Accordingly, such investments are deemed to have an average duration of zero years. The VEBA's investments in fixed income mutual funds have average durations ranging from 1.13 to 5.95 years.

Fair Value Measurement. The VEBA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Methods for valuing investments are described in the Summary of Significant Accounting Policies.

VEBA investments have the following recurring fair value measurements as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Domestic equity mutual funds	$ 5,002,141	$ 15,025,891	$ -	$ 20,028,032
International equity mutual funds	9,650,273	-	-	9,650,273
Domestic fixed income mutual funds	6,501,313	-	-	6,501,313
International fixed income mutual funds	2,393,076	6,428,102	-	8,821,178
Real estate securities	-	-	2,753,114	2,753,114
Total investments	$ 23,546,803	$ 21,453,993	$ 2,753,114	$ 47,753,910

4. NET OPEB LIABILITY OF THE COUNTY

Net OPEB Liability. The components of the net OPEB liability of the County at December 31, 2021, were as follows:

Total OPEB liability	$ 67,997,078
Plan fiduciary net position	48,174,698
County's net OPEB liability	$ 19,822,380
Plan fiduciary net position as percentage of total OPEB liability	70.85%

Notes to Financial Statements

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, rolled forward to December 31, 2021, using the following 2021 actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	21 years
Asset valuation method	Market value of assets
Price inflation	2.5%
Salary increases	3.5% to 10.5%, including inflation
Investment rate of return	6.50%, net of OPEB plan investment expense, including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to the January 1, 2013 – December 31, 2017 Experience Study for the Retirement Plan and Trust.
Mortality	The RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2018 Mortality Improvement Scales. These tables were first used for the December 31, 2018 valuation
Health care trend rates	Non-Medicare trend starting at 8.25% gradually decreasing to an ultimate trend rate of 4.50%. Medicare trend starting at 6.50% gradually decreasing to an ultimate trend rate of 4.50%.
Aging factors	The tables used in developing the retiree premium are based on a recent Society of Actuaries study of health costs.

Rate of Return. For the year ended December 31, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 11.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Long-term Expected Rate of Return. Long-term expected rate of return on VEBA plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of VEBA plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the VEBA plan's target asset allocation as of December 31, 2021 (see the discussion of the VEBA plan's investment policy in Note 3) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Core bonds	15.00%	2.58%	0.39%
Multi-sector fixed income	15.00%	3.53%	0.53%
Liquid absolute return	5.00%	3.25%	0.16%
U.S. large cap equity	30.00%	7.13%	2.14%
U.S. small cap equity	10.00%	8.53%	0.85%
Non U.S. equity	20.00%	8.22%	1.64%
Core real estate	5.00%	6.60%	0.33%
Total	100.00%		6.04%
Inflation			2.50%
Risk adjustment			-2.04%
Investment rate of return			6.50%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the current contribution rate and that Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the VEBA plan'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 VEBA plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Notes to Financial Statements

Changes in the Net OPEB Liability. The components of the change in the net OPEB liability are summarized as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2020	$ 61,571,283	$ 41,296,891	$ 20,274,392
Changes for the year:			
Service cost	1,445,063	-	1,445,063
Interest on total OPEB liability	4,094,752	-	4,094,752
Differences between expected and actual experience	2,532,526	-	2,532,526
Changes of assumptions	1,615,108	-	1,615,108
Employer contributions	-	5,434,401	(5,434,401)
Net investment income	-	4,759,318	(4,759,318)
Benefit payments, including refunds of employee contributions	(3,261,654)	(3,261,654)	-
Administrative expense	-	(60,554)	60,554
Other	-	6,296	(6,296)
Net changes	6,425,795	6,877,807	(452,012)
Balances at December 31, 2021	$ 67,997,078	$ 48,174,698	$ 19,822,380

Assumption Changes. The 2021 valuation incorporates assumption changes, including: reducing the assumed rate of return from 6.75% to 6.50% and resetting the health care trend rate to increase by 8.25% in 2022 and trending down to 4.5% in 2036.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the County, calculated using the discount rate of 6.50%, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (5.50%) or 1% higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
County's net OPEB liability	$ 27,058,620	$ 19,822,380	$ 13,593,771

Notes to Financial Statements

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate Assumption. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.25% decreasing to 3.50%) or 1% higher (9.25% increasing to 5.50%) than the current healthcare cost trend rates:

	1% Decrease (7.25% Decreasing to 3.50%)	Healthcare Cost Trend Rates (8.25% to 4.50%)	1% Increase (9.25% Decreasing to 5.50%)
County's net OPEB liability	$ 16,539,357	$ 19,822,380	$ 23,624,709

5. RISK MANAGEMENT

The VEBA is exposed to various risks of loss including fiduciary liability and torts. For the fiduciary liability exposure, a commercial fiduciary liability insurance policy is purchased with a $1,000,000 limit. For the tort exposures, the VEBA participates in the County's insurance program that includes the self-insured loss fund and excess liability insurance as an individual member of the Michigan Municipal Risk Management Authority. The County estimates the program costs, the liability for unpaid claims (including those that are incurred-but-not-reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the VEBA that would require a liability to be recorded in the financial statements.

6. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. At this time, management does not believe that any ongoing negative financial impact related to the pandemic would be material to the VEBA.

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REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Required Supplementary Information

Schedule of Changes in the County's Net OPEB Liability and Related Ratios

	Year Ended December 31,				
	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	$ 1,445,063	$ 1,321,125	$ 1,359,413	$ 1,072,729	$ 1,127,286
Interest	4,094,752	4,065,569	3,807,630	4,038,791	3,974,131
Changes in benefit terms	-	-	-	1,527,575	-
Differences between expected and actual experience	2,532,526	(1,722,740)	1,832,578	(5,733,050)	-
Changes of assumptions	1,615,108	-	-	711,496	2,759,510
Benefit payments, including refunds of employee contributions	(3,261,654)	(3,325,532)	(2,992,778)	(3,104,339)	(3,145,772)
Net change in total OPEB liability	6,425,795	338,422	4,006,843	(1,486,798)	4,715,155
Total OPEB liability, beginning of year	61,571,283	61,232,861	57,226,018	58,712,816	53,997,661
Total OPEB liability, end of year	67,997,078	61,571,283	61,232,861	57,226,018	58,712,816
Plan fiduciary net position					
Employer contributions	5,434,401	6,909,780	4,475,538	5,321,892	5,271,289
Net investment income (loss)	4,759,318	5,037,638	5,422,212	(1,599,916)	3,554,463
Benefit payments, including refunds of employee contributions	(3,261,654)	(3,325,532)	(2,992,778)	(3,104,339)	(3,145,772)
Administrative expense	(60,554)	(59,854)	(61,225)	(48,229)	(34,479)
Other	6,296	-	-	6,132	4,334
Net change in plan fiduciary net position	6,877,807	8,562,032	6,843,747	575,540	5,649,835
Plan fiduciary net position, beginning of year	41,296,891	32,734,859	25,891,112	25,315,572	19,665,737
Plan fiduciary net position, end of year	48,174,698	41,296,891	32,734,859	25,891,112	25,315,572
County's net OPEB liability	$ 19,822,380	$ 20,274,392	$ 28,498,002	$ 31,334,906	$ 33,397,244
Plan fiduciary net position as a percentage of total OPEB liability	70.85%	67.07%	53.46%	45.24%	43.12%
Covered payroll	$ 119,823,309	$ 119,307,486	$ 109,665,514	$ 92,095,534	$ 88,846,626
County's net OPEB liability as a percentage of covered payroll	16.54%	16.99%	25.99%	34.02%	37.59%

See notes to the required supplementary information.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Required Supplementary Information

Schedule of the Net OPEB Liability

Fiscal Year Ended December 31,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2017	$ 58,712,816	$ 25,315,572	$ 33,397,244	43.12%	$ 88,846,626	37.59%
2018	57,226,018	25,891,112	31,334,906	45.24%	92,095,534	34.02%
2019	61,232,861	32,734,859	28,498,002	53.46%	109,665,514	25.99%
2020	61,571,283	41,296,891	20,274,392	67.07%	119,307,486	16.99%
2021	67,997,078	48,174,698	19,822,380	70.85%	119,823,309	16.54%

See notes to the required supplementary information.

Required Supplementary Information

Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2017	$ 3,394,981	$ 5,271,289	$ 1,876,308	$ 88,846,626	5.93%
2018	3,151,965	5,321,892	2,169,927	92,095,534	5.78%
2019	2,908,628	4,475,538	1,566,910	109,665,514	4.08%
2020	3,513,339	6,909,780	3,396,441	119,307,486	5.79%
2021	3,338,355	5,434,401	2,096,046	119,823,309	4.54%

See notes to the required supplementary information.

Required Supplementary Information

Schedule of Investment Returns

Fiscal Year Ended December 31,	Annual Return [1]
2017	17.76%
2018	-6.09%
2019	20.98%
2020	15.20%
2021	11.50%

[1] Annual money-weighted rate of return, net of investment expenses

See notes to the required supplementary information.

Notes to Required Supplementary Information

Notes to the Schedule of Changes in the County's Net OPEB Liability and Related Ratios

The December 31, 2021 valuation incorporates assumption changes, including: reduced the assumed rate of return from 6.75% to 6.50% and reset the health care trend rate to increase by 8.25% in 2022 and trending down to 4.5% in 2036.

The December 31, 2018 valuation incorporates assumption changes in accordance with the pension experience study dated November 8, 2018 and adopted by the Board on November 14, 2018. Further the healthcare specific assumptions were investigated in the experience study dated February 8, 2018. The adopted changes are summarized as follows: 6.75% investment return assumption; 3.50% wage inflation assumption; MP-2018 mortality projection scale; decrease retirement rates; decrease withdrawal rates; lowered election percentage assumptions; public act 202 healthcare trend assumption. The overall impact of the assumption changes increased the contribution rate by 0.25% and slightly reduced the funded ratio.

For the December 31, 2018 valuation a benefit change was reflected for future retirees: the maximum monthly flat dollar stipend increased from $350 to $400. The benefit change increased the employer contribution rate by 0.18% and slightly reduced the funded ratio.

The December 31, 2017 valuation incorporates assumption changes, including: reduced the assumed rate of return from 7.5% to 7.0%; changed the amortization period from 30 years open to 23 years closed; reset the health care trend rate to increase by 9.0% in 2018 and trending down to 4.0% in 2028.

GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to the Schedule of the Net OPEB Liability

GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Required Supplementary Information

Notes to the Schedule of Contributions

Valuation Date	December 31 of the year prior to the fiscal year in which the contributions are expected to be made

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	Market value of assets
Price inflation	2.5%
Salary increases	3.5% to 10.5%, including inflation
Investment rate of return	6.75%, net of OPEB plan investment expense, including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to the January 1, 2013 – December 31, 2017 Experience Study for the Retirement Plan and Trust.
Mortality	The RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2018 Mortality Improvement Scales. These tables were first used for the December 31, 2018 valuation.
Health care trend rates	Non-Medicare: Trend starting at 8.50% and gradually decreasing to an ultimate trend rate of 4.50% in the 17th year. Medicare: Trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.50% in the 17th year.
Aging factors	The tables used in developing the retiree premium are based on a recent Society of Actuaries study of health costs.
Expenses	Investment expenses are net of the investment returns; Administrative expenses are included in the premium costs.

GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to the Schedule of Investment Returns

GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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INTERNAL CONTROL AND COMPLIANCE

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Rehmann

INDEPENDENT AUDITORS' 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*

June 10, 2022

Members of the Board of Trustees of the
Kent County Voluntary Employees' Beneficiary Association
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 ***Kent County Voluntary Employees' Beneficiary Association*** (the "VEBA", a fiduciary component unit of the County of Kent, Michigan), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the VEBA's basic financial statements, and have issued our report thereon dated June 10, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VEBA's internal control over financial reporting (internal control) as a basis for designing 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 VEBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the VEBA'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 entity'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.

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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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VEBA'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 financial statements. 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 VEBA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC