Kent County Employees' Retirement Plan

Year Ended December 31, 2014

Financial Statements

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KENT COUNTY EMPLOYEES' RETIREMENT PLAN

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INDEPENDENT AUDITORS' REPORT

June 8, 2015

Members of the Board of Trustees of the
Kent County Employees' Retirement Plan
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the financial statements of the *Kent County Employees' Retirement Plan* (the "Plan", a pension trust fund of the County of Kent, Michigan), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Plan'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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan financial position of the Kent County Employees' Retirement Plan as of December 31, 2014, and the change in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Kent County Employees' Retirement Plan and do not purport to, and do not, present fairly the financial position of the County of Kent, Michigan as of December 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of GASB Statement No. 67

The Plan implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans,* in the current year. While there was no effect on the amounts reported in the financial statements themselves, there were substantial changes to the disclosures found in Note 5 to the financial statements, including the calculation of the County's net pension liability, which will be required to be recorded by the County in its next fiscal year. 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 schedules of pension 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 June 8, 2015 on our consideration of the Plan'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 Plan's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following is a discussion and analysis of the financial performance and position of the Kent County Employee's Retirement Plan (the "Plan") for the year ended December 31, 2014. This analysis should be read in conjunction with the *Independent Auditors' Report* and with the financial statements, which follow this section.

Financial Highlights

- Plan assets exceeded liabilities at December 31, 2014 by $789,770,521 (reported as net position).
- The Plan's funding objective is to meet the long-term benefit obligations through contributions and investment income. At December 31, 2014, the date of the most recent actuarial valuation, the funded ratio was 100.4%.
- Additions to net position for the year ended December 31, 2014 were $65,193,869 which is comprised of contributions of $18,138,796 and investment income, net of investment expense, of $47,055,073.
- Deductions from net position increased 5.2% from 2013 to 2014 (from $30,831,527 to $32,428,405), and were comprised primarily of benefit payments to plan members.

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

This report consists of two financial statements: the *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position.* These financial statements report information about the Plan, as a whole, and about its financial condition that should help answer the question: Is the Plan 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 Plan Net Position* presents all of the Plan'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 Plan's financial position is improving or deteriorating. The *Statement of Changes in Plan Net Position* presents how the Plan's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the schedules of pension information (presented after the footnotes as required supplementary information) to determine whether the Plan is becoming financially stronger or weaker and to understand changes over time in the funded status of the Plan.

Financial Analysis

Total assets as of December 31, 2014 and 2013 were $791,300,562 and $758,780,301, respectively, and were comprised mainly of investments and receivables. Total assets increased $32,520,261 or 4.3% from December 31, 2013 to December 31, 2014, primarily from net appreciation in the fair value of investments.

Total liabilities as of December 31, 2014 were $1,530,041, and consisted of amounts payable for management fees and due to brokers. Total liabilities decreased $245,203 or approximately 13.8% from December 31, 2013 to December 31, 2014, primarily due to a decrease in amounts due to brokers.

Plan assets exceeded its liabilities at the close of 2014 by $789,770,521.

Management's Discussion and Analysis

	Net Position December 31, 2014	2013
Assets		
Cash	$ 22	$ 6,344
Receivables	1,641,881	1,824,386
Investments	789,658,659	756,949,571
Total assets	791,300,562	758,780,301
Liabilities		
Accounts payable	1,213,468	-
Due to brokers	316,573	1,775,244
Total liabilities	1,530,041	1,775,244
Total net position	$ 789,770,521	$ 757,005,057

Revenue - Additions to Plan Net Position

The reserves needed to finance retirement benefits are accumulated though the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for 2014 and 2013 totaled $65,193,869 and $133,452,633, respectively.

Total contributions and net investment income decreased $68,258,764 from 2013 to 2014 primarily due to large decrease in the net appreciation in fair value of securities in 2014. The employer contribution rate was 9.3% and 10.57% for 2014 and 2013, respectively.

Expenses - Deductions from Plan Net Position

The primary expenses of the Plan include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and cost of administering the Plan. Total deductions for fiscal years 2014 and 2013 were $32,428,405 and $30,831,527, respectively.

Pension benefit payments increased by $1,832,647 or 6.3% from $29,267,089 to $31,099,736 from 2013 to 2014, respectively. Benefit payments may fluctuate annually based on the mix of retirees currently receiving benefits.

Management's Discussion and Analysis

	Changes in Net Position	
	Year Ended December 31,	
	2014	2013
Additions		
Contributions	$ 18,138,796	$ 17,801,232
Net investment income	47,055,073	115,651,401
Total additions	65,193,869	133,452,633
Deductions		
Benefit payments	31,099,736	29,267,089
Administrative expenses	745,779	817,805
Refunds of contributions	582,890	746,633
Total deductions	32,428,405	30,831,527
Change in net position	32,765,464	102,621,106
Net position, beginning of year	757,005,057	654,383,951
Net position, end of year	$ 789,770,521	$ 757,005,057

Economic Factors, Investment Returns, and Other Important Matters

Favorable investment experience during 2014 yielded an actual return of 6.34%. This is slightly lower than the Plan's long-term expected rate of return of 7.0%. The Plan's purpose is to provide long-term benefit payments to its members through long-term investing. Through its investment policy, the Plan has positioned the investment portfolio to achieve this long-term objective.

In addition, to maximize investment returns and preserve fund assets, the Plan carefully monitors the performance of each of its investment managers and takes the necessary corrective action to ensure acceptable investment results. The additional latitude afforded to public pension plans in the overhaul of Public Act 314 will enable the Plan to further maximize a long-term investment strategy.

Contacting the Plan's Financial Management

This financial report is designed to provide the public, citizens, and other interest parties with a general overview of the Plan's financial position. If you have questions about this report or need additional financial information, contact Michelle Balcom, Pension Administrator, County of Kent, Michigan, 300 Monroe Ave. NW, Grand Rapids, MI 49503.

FINANCIAL STATEMENTS

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Statement of Plan Net Position

December 31, 2014

Assets		
Cash		$ 22
Receivables:		
Accrued interest receivable	$ 921,998	
Contributions receivable	680,304	
Due from brokers	39,579	
Total receivables		1,641,881
Investments, at fair value:		
U.S. government obligations	37,303,633	
U.S. government agency obligations	32,608,380	
Municipal obligations	596,861	
Corporate obligations	38,109,986	
Common stock	334,588,953	
Foreign obligations	5,656,825	
Foreign common stock	6,589,837	
Money market funds	13,500,103	
International equity mutual funds	142,035,847	
International fixed income mutual funds	85,939,101	
Real estate and infrastructure securities	64,979,148	
Mortgage-backed securities fund	27,749,985	
Total investments		789,658,659
Total assets		791,300,562
Liabilities		
Accounts payable		1,213,468
Due to brokers		316,573
Total liabilities		1,530,041
Net position restricted for pension benefits		$ 789,770,521

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

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Statement of Changes in Plan Net Position

For the Year Ended December 31, 2014

Additions		
Contributions:		
Employer	$ 8,929,617	
Employee	9,209,179	
Total contributions		$ 18,138,796
Investment income:		
Net appreciation in fair value of securities	37,203,009	
Interest	3,861,965	
Dividends	10,584,639	
Total investment income	51,649,613	
Management fees	(4,594,540)	
Net investment income		47,055,073
Total additions		65,193,869
Deductions		
Benefit payments		31,099,736
Administrative expenses		745,779
Refunds of contributions		582,890
Total deductions		32,428,405
Change in net position		32,765,464
Net position restricted for pension benefits:		
Beginning of year		757,005,057
End of year		$ 789,770,521

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 Employees' Retirement Plan (the "Plan") is a single-employer defined benefit contributory retirement plan that provides pension, death and disability benefits covering substantially all full-time and regular part-time employees of the County of Kent, Michigan (the "County").

The Plan was established by the Kent County Board of Commissioners and is administered by a seven member Board called the Kent County Employees' Retirement Plan Pension Board. The Board is comprised of the Chairman of the Finance Committee of the Commissioners, one other Commissioner appointed by the Board of Commissioners, three employees covered by the Plan, and two residents of the County that are independent of the County and the Plan. Accordingly, it is included as a pension trust fund in the County's comprehensive annual financial report. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Kent County Board of Commissioners.

Plan membership consisted of the following at December 31, 2014, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits	1,298
Terminated employees entitled to but not yet receiving benefits	223
Vested and non-vested active participants	1,549
Total membership	3,070

Benefits Provided

Employees who retire with minimum age and years of service requirements are entitled to annual retirement benefits, payable in monthly installments for life, in an amount equal to a percentage of their final average compensation times years of credited service. Plan members hired through December 31, 2010 are eligible to receive pension benefits upon retirement at age 60 with 5 years of service or at any age with 25 years of service. Members hired on or after January 1, 2011 (January 1, 2012 for the Teamsters-Parks, Airport Command Officers Association, and Circuit Court Referees) are eligible at age 62 with 5 years of service or at age 60 (55 for captains and lieutenants) with 25 years of service. Members of the KCDSA bargaining unit hired on or after January 1, 2013 are eligible to receive this benefit at age 62 with 5 years of service or age 55 with 25 years of service. An early retirement option is offered for retirement at age 55 with 15 or more years of service.

Cost-of-living adjustments (COLAs) vary based on bargaining unit and hire date and range from 1%-3%.

Retirees are eligible for postemployment healthcare benefits if they are receiving a pension from the Plan. The Kent County Voluntary Employees' Beneficiary Association (VEBA) pays these benefits. These benefits are accounted for in the VEBA trust fiduciary fund, included in the County's comprehensive annual financial report.

Contributions

Employee Contributions. After meeting eligibility requirements, active Plan members are required to contribute to the Plan based on their bargaining unit or management group contribution rate. The variable rate was 8.5% for the year ended December 31, 2014. The additional amounts paid for COLAs by the members of the three unions covering public safety officers are a fixed amount added to the variable rate and ranged from 3.32%-3.50%.

Employer Contributions. The County's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are designed to accumulate sufficient assets to pay benefits when due. The County's contribution rate for the year ended December 31, 2014, was 9.3% of projected valuation payroll. The normal cost and amortization payment were determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a closed period of 24 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Valuation of Investments and Income Recognition

The Plan's investments are stated 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. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate and infrastructure investments is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value. 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 Plan's Board of Trustees, with the assistance of a valuation service.

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the trade date, which is the date when the transaction is initiated.

Administration

Administrative costs are financed initially through forfeited contributions by terminated employees not vested in the plan and then through the Plan's investment earnings.

3. DEPOSITS AND INVESTMENTS

Cash and Short-term Investments

The Plan does not maintain any checking or other demand/time deposit accounts. The amounts reported as cash and money market funds in the statement of plan net position are insured by the Securities Investors Protection Act for up to $500,000 each. The carrying amount of these accounts as of December 31, 2014, was $13,500,125, of which the insured amount was $2,946,747. The remaining balance of $10,553,378 is uninsured and uncollateralized.

Investments

The Plan 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, real estate, and various other instruments, subject to certain limitations. The Plan'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 Plan.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Plan's asset allocation policy as of December 31, 2014 is detailed in Note 5.

Rate of Return. For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.34%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The Plan's investments are held in fifteen portfolios administered by twelve investment managers. Following is a summary of the Plan's investments as of December 31, 2014 (investments at fair value, as determined by quoted market price):

Investments at fair value	
U.S. government obligations	$ 37,303,633
U.S. government agency obligations	32,608,380
Municipal obligations	596,861
Corporate obligations	38,109,986
Common stock	334,588,953
Foreign obligations	5,656,825
Foreign common stock	6,589,837
Money market funds	13,500,103
International equity mutual funds	142,035,847
International fixed income mutual funds	85,939,101
Real estate and infrastructure securities	64,979,148
Mortgage-backed securities fund	27,749,985
Total investments	$ 789,658,659

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy requires that bonds have a minimum quality rating of BBB/Baa at the time of purchase. The overall portfolio is expected to maintain an average credit quality of AA or higher. Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall not be rated less than A1/P1 unless held in a diversified short-term commingled fund. For collateralized mortgage obligations, only issues rated AA or better at time of purchase are permitted.

As of December 31, 2014, the Plan's investments were rated as follows:

Investments at fair value	
Standard and Poor's AAA	$ 43,906,433
Standard and Poor's AA	4,920,106
Standard and Poor's A	14,515,162
Standard and Poor's BBB	10,673,127
Standard and Poor's BB	14,480
Moody's AAA	1,007,570
Moody's A2	196,182
Moody's A3	25,075
Morningstar 4 Stars	123,848,293
Morningstar 2 Stars	34,569,713
Unrated	97,003,675
Not subject to credit risk	458,978,843
Total investments	$ 789,658,659

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 Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Plan's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Plan's name. Short-term investments in money market funds and equity mutual funds 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 Plan's investment in a single issuer. For fixed income portfolios, the Plan's Investment Policy provides that, with the exception of U.S. treasuries and agencies, no more than 3% of the portfolio shall be invested in the obligations of any one issuer. For equity portfolios, no single company's securities should represent more than 5% at cost, or 7% at market value, of the individual manager's portfolio. For the Plan's large cap equity portfolio, no single company's security should represent more than 1% plus the benchmark weight at the time of purchase of the individual manager's portfolio. Collateralized mortgage obligations are limited to 5% per issue. As of December 31, 2014, the Plan had no investment in a single issuer, other than U.S. treasuries and agencies, that exceeded the above percentages.

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 Plan mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. Country exposures are monitored through a quarterly performance report. The Plan's exposure to foreign currency risk as of December 31, 2014, is as follows:

Investment (currency in U.S. dollar)	Fair Value
Foreign obligations	$ 5,656,825
Foreign common stock	6,589,837
International equity mutual funds	142,035,847
International fixed income mutual funds	85,939,101
Total	$ 240,221,610

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 Plan'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 are comprised of securities with no stated maturity date. Accordingly, such investments are deemed to have an average duration of zero years. The Plan's investments in fixed income mutual funds have average durations ranging from 4.49 to 5.70 years, all within 120% of the duration of the stated benchmark. At December 31, 2014, maturities of the Plan's investments were as follows:

Investments at fair value	
Less than 1 year	$ 2,448,942
1 -5 years	37,218,080
6 - 10 years	35,614,119
More than 10 years	38,994,544
No maturity	675,382,974
Total investments	$ 789,658,659

4. DISCLOSURES UNDER GASB STATEMENT NO. 27, AS AMENDED

For the year ended December 31, 2014, total contributions of $18,138,796 were made in accordance with actuarially determined requirements, computed through an actuarial valuation performed as of December 31, 2012. The County contributed $8,929,617 (9.3% of projected valuation payroll); employees contributed $9,209,179. The County's contribution consisted of $7,130,423 normal cost (7.23% of projected valuation payroll) plus $1,799,194 in amortization of the unfunded actuarial accrued liability and cost-of-living adjustments (2.07% of projected valuation payroll).

Employer contributions to the Plan for the current fiscal year and two years prior were as follows:

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2012	$ 8,547,559	100%	$ -
2013	9,741,061	100%	-
2014	8,929,617	100%	-

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the Plan was 100.4% funded. The actuarial accrued liability for benefits was $743,093,569, and the actuarial value of assets was $746,298,467, resulting in a negative unfunded actuarial accrued liability (UAAL) of $3,204,898 (i.e., the actuarial value of plan assets exceeded the actuarial accrued liability). The covered payroll (annual payroll of active employees covered by the Plan) was $90,602,575, and the ratio of the UAAL to the covered payroll was 3.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of assets held in trust are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The entry-age actuarial cost method is used to determine plan liabilities. Significant actuarial assumptions used in determining the entry-age actuarial accrued liability include (a) a rate of return on investments of 7.0% per year compounded annually (b) projected salary increases of 4.0% attributable to inflation, (c) 0.0 to 7.0% per year, depending on age, attributable to seniority/merit and (d) and the assumption that benefits will increase beginning 3 years after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period.

Notes to Financial Statements

5. DISCLOSURES UNDER GASB STATEMENT NO. 67

Net Pension Liability. The components of the net pension liability of the Plan at December 31, 2014, were as follows:

Total pension liability	$ 751,577,688
Plan fiduciary net pension	789,770,521
County's net pension liability	$ (38,192,833)
Plan fiduciary net position as a percentage of the total pension liability	105.08%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2013 (rolled forward to December 31, 2014), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4%
Salary increases	4.0 to 11.0%, including inflation
Investment rate of return	7%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for males and females projected to the year 2017 using Scale BB. A margin for future mortality improvement is included in these tables.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 to December 31, 2012.

Notes to Financial Statements

The long-term expected rate of return on pension 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 pension 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 pension plan's target asset allocation as of December 31, 2013 (see the discussion of the pension 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
Large cap equity	30.00%	5.39%	1.62%
Small cap equity	10.00%	6.68%	0.67%
International equity	15.00%	6.39%	0.96%
Emerging market equity	5.00%	7.74%	0.39%
Core fixed income	20.00%	0.40%	0.08%
Multi-sector fixed income	12.50%	1.38%	0.17%
Core real estate	5.00%	3.11%	0.16%
Infrastructure	2.50%	6.39%	0.16%
Total	100.00%		4.20%
Inflation			4.00%
Risk adjustment			-1.20%
Investment rate of return			7.00%

Discount Rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member 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 pension 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 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 presents the net pension liability of the Plan, calculated using the discount rate of 7.0%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	One Percent Decrease (6.0%)	Current Discount Rate (7.0%)	One Percent Increase (8.0%)
County's net pension liability	$ 62,884,044	$ (38,192,833)	$(122,203,214)

Notes to Financial Statements

6. RISK MANAGEMENT

The Plan is exposed to various risks of loss related to torts, errors and omissions. The Plan participates in the County of Kent, Michigan's risk management program for all of these exposures. The County's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The County estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Plan that would require a liability to be recorded in the financial statements.

In addition, the Plan holds a fiduciary liability insurance policy to protect the Board of Trustees and County employees administering the Plan against allegations of breach of fiduciary responsibility. The policy includes an aggregate claim limit of $3,000,000.

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REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31, 2014
Total pension liability	
Service cost	$ 16,145,491
Interest on total pension liability	49,676,858
Benefit payments	(31,099,736)
Refunds	(582,890)
Net change in total pension liability	34,139,723
Total pension liability, beginning of year	717,437,965
Total pension liability, end of year	751,577,688
Plan fiduciary net position	
Employer contributions	8,929,617
Employee contributions	9,209,179
Pension plan net investment income	47,055,073
Benefit payments	(31,099,736)
Pension plan administrative expense	(745,779)
Refunds	(582,890)
Net change in plan fiduciary net position	32,765,464
Plan fiduciary net position, beginning of year	757,005,057
Plan fiduciary net position, end of year	789,770,521
Net pension liability (asset)	$ (38,192,833)
Plan fiduciary net position as a percentage of total pension liability	105.08%
Covered employee payroll	$ 91,944,708
Net pension liability as a percentage of covered employee payroll	-41.54%

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability (Assets)	Plan Net Position as Percentage of Total Pension Liability	Covered[1] Payroll	Net Pension Liability as Percentage of Covered Payroll
2014	$ 751,577,688	$ 789,770,521	$ (38,192,833)	105.08%	$ 91,944,708	-41.54%

[1] Valuation payroll as of the previous year ended December 31

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Contributions

Year Ended December 31,	Actuarially[2] Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered[1] Payroll	Actual Contribution as Percentage of Covered Payroll
2014	$ 8,929,617	$ 8,929,617	$ -	$ 91,944,708	9.71%

(1) Valuation payroll as of the previous year ended December 31

(2) The actuarially determined contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date	December 31, 2013 (rolled forward to December 31, 2014)
Notes	Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	4.0%
Salary increases	4.0%-11.0%, including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to the January 1, 2008 – December 31, 2012 experience study
Mortality	The RP-2000 Combined Healthy Mortality Table for males and females projected to the year 2017 using Scale BB. A margin for future mortality improvement is included in these tables
Cost-of-living adjustment	Varied, depending on union
Other information	There were no assumption or benefit changes during the year

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Investment Returns

Year Ended December 31,	Annual Return[3]
2014	6.34%

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

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Funding Progress
(amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	$ 589.3	$ 586.8	$ (2.5)	100.4%	$ 94.5	-2.6%
12/31/2010	595.3	612.6	17.3	97.2%	92.5	18.7%
12/31/2011	614.9	650.1	35.2	94.6%	90.9	38.7%
12/31/2012	644.2	678.7	34.5	94.9%	91.2	37.8%
12/31/2013	693.3	717.4	24.1	96.6%	91.9	26.2%
12/31/2014	746.3	743.1	(3.2)	100.4%	90.6	-3.5%

Schedule of Employer Contributions
(amounts in millions)

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2009	$ 5.0	100%
2010	6.7	100%
2011	8.4	100%
2012	8.5	100%
2013	9.7	100%
2014	8.9	100%

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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 8, 2015

Members of the Board of Trustees of the
Kent County Employees' Retirement Plan
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 Employees' Retirement Plan* (the "Plan", a pension trust fund of the County of Kent, Michigan), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated June 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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.

Our consideration of internal control over financial reporting 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 Plan'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 Plan'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