Kent County Employees' Retirement Plan

COUNTY OF KENT MICHIGAN

Year Ended December 31, 2015

Financial Statements

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KENT COUNTY EMPLOYEES' RETIREMENT PLAN

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INDEPENDENT AUDITORS' REPORT

June 15, 2016

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, 2015, 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, 2015, 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, 2015, and the changes in its financial position 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.

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 15, 2016, 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.

Rehmann Robson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

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, 2015. 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, 2015 by $771,969,061 (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, 2015, the date of the most recent actuarial valuation, the plan fiduciary net position as a percentage of the total pension liability was 96.02%.
- Additions to net position for the year ended December 31, 2015 were $16,519,736 which is comprised of contributions of $18,223,210 net of an investment loss of $1,703,474.
- Deductions from net position increased 5.8% from 2014 to 2015 (from $32,428,405 to $34,321,196), and were comprised primarily of benefit payments to plan members.

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 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 Fiduciary 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 Fiduciary 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, 2015 and 2014 were $773,394,357 and $791,300,562, respectively, and were comprised mainly of investments and receivables. Total assets decreased $17,906,205 or 2.3% from December 31, 2014 to December 31, 2015, primarily from net depreciation in the fair value of investments.

Total liabilities as of December 31, 2015 were $1,425,296, and consisted of amounts payable for management fees and due to brokers. Total liabilities decreased $104,745 or approximately 6.8% from December 31, 2014 to December 31, 2015, primarily due to the timing of management fee payments.

Plan assets exceeded its liabilities at the close of 2015 by $771,969,061.

Management's Discussion and Analysis

	Net Position	
	December 31,	
	2015	2014
Assets		
Cash	$ 3,072	$ 22
Receivables	2,203,006	1,641,881
Investments	771,188,279	789,658,659
Total assets	773,394,357	791,300,562
Liabilities		
Accounts payable	832,030	1,213,468
Due to brokers	593,266	316,573
Total liabilities	1,425,296	1,530,041
Total net position	$ 771,969,061	$ 789,770,521

Revenue - Additions to Fiduciary 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 (loss) for 2015 and 2014 totaled $16,519,736 and $65,193,869, respectively.

Total contributions and net investment income (loss) decreased $48,674,133 from 2014 to 2015 primarily due to large decrease in the net appreciation in fair value of securities in 2015. The employer contribution rate was 9.31% and 9.30% for 2015 and 2014, respectively.

Expenses - Deductions from Fiduciary 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 2015 and 2014 were $34,321,196 and $32,428,405, respectively.

Pension benefit payments increased by $2,143,657 or 6.9% from $31,099,736 to $33,243,393 from 2014 to 2015, respectively. Benefit payments may fluctuate annually based on the mix of retirees currently receiving benefits.

	Changes in Net Position Year Ended December 31, 2015	2014
Additions		
Contributions	$ 18,223,210	$ 18,138,796
Net investment income (loss)	(1,703,474)	47,055,073
Total additions	16,519,736	65,193,869
Deductions		
Benefit payments	33,243,393	31,099,736
Administrative expenses	600,482	745,779
Refunds of contributions	477,321	582,890
Total deductions	34,321,196	32,428,405
Change in net position	(17,801,460)	32,765,464
Net position, beginning of year	789,770,521	757,005,057
Net position, end of year	$ 771,969,061	$ 789,770,521

Economic Factors, Investment Returns, and Other Important Matters

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 Fiduciary Net Position

December 31, 2015

Assets		
Cash		$ 3,072
Receivables:		
Accrued interest receivable	$ 961,549	
Contributions receivable	277,938	
Due from brokers	963,519	
Total receivables		2,203,006
Investments, at fair value:		
U.S. government obligations	43,402,421	
U.S. government agency obligations	30,282,832	
Municipal obligations	558,854	
Corporate obligations	36,601,961	
Common stock	324,942,488	
Foreign obligations	5,444,530	
Foreign common stock	4,886,486	
Money market funds	12,047,589	
International equity mutual funds	131,201,700	
International fixed income mutual funds	81,300,071	
Real estate and infrastructure securities	72,085,619	
Mortgage-backed securities fund	28,433,728	
Total investments		771,188,279
Total assets		773,394,357
Liabilities		
Accounts payable		832,030
Due to brokers		593,266
Total liabilities		1,425,296
Net position restricted for pension benefits		$ 771,969,061

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

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2015

Additions		
Contributions:		
Employer	$ 8,858,387	
Employee	9,364,823	
Total contributions		$ 18,223,210
Investment income:		
Net depreciation in fair value of securities	(12,507,509)	
Interest	3,918,666	
Dividends	10,212,198	
Total investment income	1,623,355	
Investment expense	(3,326,829)	
Net investment loss		(1,703,474)
Total additions		16,519,736
Deductions		
Benefit payments		33,243,393
Administrative expenses		600,482
Refunds of contributions		477,321
Total deductions		34,321,196
Change in net position		(17,801,460)
Net position, beginning of year		789,770,521
Net position, end of year		$ 771,969,061

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, 2015:

Retirees and beneficiaries currently receiving benefits	1,330
Terminated employees entitled to but not yet receiving benefits	233
Vested and non-vested active participants	1,559
Total membership	3,122

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, Circuit Court Referees, and Teamsters-Public Health Nurses) 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. Members of the POAM bargaining unit hired on or after January 1, 2015 are eligible to receive this benefit at age 60 with 5 or more years of services or age 50 with 25 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, 2015. 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, 2015, was 9.31% 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 fiduciary 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, 2015, was $12,050,661, of which the insured amount was $3,400,832. The remaining balance of $8,649,829 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, 2015 is detailed in Note 5.

Rate of Return. For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -0.31%. 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, 2015 (investments at fair value, as determined by quoted market price):

Investments at fair value	
U.S. government obligations	$ 43,402,421
U.S. government agency obligations	30,282,832
Municipal obligations	558,854
Corporate obligations	36,601,961
Common stock	324,942,488
Foreign obligations	5,444,530
Foreign common stock	4,886,486
Money market funds	12,047,589
International equity mutual funds	131,201,700
International fixed income mutual funds	81,300,071
Real estate and infrastructure securities	72,085,619
Mortgage-backed securities fund	28,433,728
Total investments	$ 771,188,279

Notes to Financial Statements

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The 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, 2015, the Plan's investments were rated as follows:

Investments at fair value	
Standard and Poor's AAA	$ 4,065,037
Standard and Poor's AA	5,015,331
Standard and Poor's A	9,185,702
Standard and Poor's BBB	14,674,686
Standard and Poor's BB	230,544
Moody's AAA	24,212,967
Morningstar 5 Stars	52,602,428
Morningstar 4 Stars	14,711,721
Morningstar 3 Stars	14,414,450
Unrated	180,687,719
Not subject to credit risk	451,387,694
Total investments	$ 771,188,279

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, 2015, the Plan had no investment in a single issuer, other than U.S. treasuries and agencies, that exceeded the above percentages.

Notes to Financial Statements

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, 2015, is as follows:

Investment (currency in U.S. dollar)	Fair Value
Foreign obligations	$ 5,444,530
Foreign common stock	4,886,486
International equity mutual funds	131,201,700
International fixed income mutual funds	81,300,071
Total	$ 222,832,787

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 5.03 to 7.86 years, all within 120% of the duration of the stated benchmark. At December 31, 2015, maturities of the Plan's investments were as follows:

Investments at fair value	
Less than 1 year	$ 6,517,106
1 -5 years	50,628,150
6 - 10 years	24,148,449
More than 10 years	34,996,893
No maturity	654,897,681
Total investments	$ 771,188,279

Notes to Financial Statements

4. NET PENSION LIABILITY OF THE COUNTY

Net Pension Liability. The components of the net pension liability of the County at December 31, 2015, were as follows:

Total pension liability	$ 803,932,291
Plan fiduciary net pension	771,969,061
County's net pension liability	$ 31,963,230
Plan fiduciary net position as a percentage of the total pension liability	96.02%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2014 (rolled forward to December 31, 2015), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0%
Salary increases	4.0 to 11.0%, including inflation
Investment rate of return	7.0%

Mortality rates were based on the RP-2014 Combined Healthy Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2015 Mortality Improvement Scales.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 to December 31, 2012.

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, 2015 (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%	5.09%	1.51%
Small cap equity	10.00%	6.30%	0.63%
International equity	15.00%	6.05%	0.91%
Emerging market equity	5.00%	7.32%	0.37%
Core fixed income	20.00%	0.34%	0.07%
Multi-sector fixed income	12.50%	1.32%	0.17%
Core real estate	5.00%	3.31%	0.17%
Infrastructure	2.50%	6.65%	0.17%
Total	100.00%		4.00%
Inflation			4.00%
Risk adjustment			-1.00%
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.

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	$ 751,577,688	$ 789,770,521	$ (38,192,833)
Changes for the year:			
Service cost	15,924,610	-	15,924,610
Interest on total pension liability	51,987,575	-	51,987,575
Changes in benefit terms	(476,713)	-	(476,713)
Differences between expected and actual experience	(8,805,534)	-	(8,805,534)
Assumption changes	27,445,379	-	27,445,379
Employer contributions	-	8,858,387	(8,858,387)
Employee contributions	-	9,364,823	(9,364,823)
Net investment income	-	(1,703,474)	1,703,474
Benefit payments	(33,243,393)	(33,243,393)	-
Administrative expense	(477,321)	(600,482)	123,161
Refunds of contributions	-	(477,321)	477,321
Net changes	52,354,603	(17,801,460)	70,156,063
Balances at December 31, 2015	$ 803,932,291	$ 771,969,061	$ 31,963,230

Changes in Assumptions. The County revised certain actuarial assumptions in the December 31, 2015 valuation that had a significant impact on the total pension liability from the prior measurement date. The most significant changes were related to the non-duty disability provision and the member contribution rate for certain groups.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.0%, as well as what the County'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	$ 144,511,859	$ 31,963,230	$ (60,616,847)

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	**2015**
Total pension liability		
Service cost	$ 16,145,491	$ 15,924,610
Interest on total pension liability	49,676,858	51,987,575
Benefit changes	-	(476,713)
Difference between expected and actual experience	-	(8,805,534)
Assumption changes	-	27,445,379
Benefit payments	(31,099,736)	(33,243,393)
Refunds	(582,890)	(477,321)
Net change in total pension liability	34,139,723	52,354,603
Total pension liability, beginning of year	717,437,965	751,577,688
Total pension liability, end of year	751,577,688	803,932,291
Plan fiduciary net position		
Employer contributions	8,929,617	8,858,387
Employee contributions	9,209,179	9,364,823
Pension plan net investment income	47,055,073	(1,703,474)
Benefit payments	(31,099,736)	(33,243,393)
Pension plan administrative expense	(745,779)	(600,482)
Refunds of contributions	(582,890)	(477,321)
Net change in plan fiduciary net position	32,765,464	(17,801,460)
Plan fiduciary net position, beginning of year	757,005,057	789,770,521
Plan fiduciary net position, end of year	789,770,521	771,969,061
Net pension liability (asset)	$(38,192,833)	$ 31,963,230
Plan fiduciary net position as a percentage of total pension liability	105.08%	96.02%
Covered employee payroll	$ 91,944,708	$ 90,602,575
Net pension liability as a percentage of covered employee payroll	-41.54%	35.28%

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 Fiduciary Net Position	Net Pension Liability (Asset)	Plan Fiduciary Net Position as Percentage of Total Pension Liability	Covered Payroll [1]	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%
2015	803,932,291	771,969,061	31,963,230	96.02%	90,602,575	35.28%

[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
2006	$ 7,888,534	$ 7,888,534	$ -	$ 87,200,000	9.05%
2007	8,671,688	8,671,688	-	90,800,000	9.55%
2008	5,555,541	5,555,541	-	91,200,000	6.09%
2009	5,006,344	5,006,344	-	93,308,014	5.37%
2010	6,747,873	6,747,873	-	94,508,103	7.14%
2011	8,412,960	8,412,960	-	92,487,613	9.10%
2012	8,547,559	8,547,559	-	90,889,046	9.40%
2013	9,741,061	9,741,061	-	91,209,371	10.68%
2014	8,929,617	8,929,617	-	91,944,708	9.71%
2015	8,858,387	8,858,387	-	90,602,575	9.78%

(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.

Notes to Schedule of Contributions

Valuation Date	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-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2015 Mortality Improvement Scales.
Cost-of-living adjustment	Varied, depending on union
Other information	Benefit changes regarding the non-duty disability provision and member contribution rate for certain groups were reflected in the 2015 valuation.

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Investment Returns

Year Ended December 31,	Annual Return[3]
2014	6.34%
2015	-0.31%

[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.

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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 15, 2016

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, 2015, 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 15, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

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.

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.*

Kent County Employees' Retirement Plan's Response to Findings

The Plan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Schedule of Findings and Responses
For the Year Ended December 31, 2015

2015-001 – Material Audit Adjustment

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting).

Condition. A quantitatively material adjustment was proposed by the auditors (and approved by management) to correctly present the fair market value of a certain investment at year-end.

Cause. The Plan does not use a general ledger to track financial activity throughout the year. Instead, a trial balance is compiled at year-end only (by a third-party accounting firm) based on investment statements, payroll reports, and payment registers. During the process of compiling this information, a clerical error was made which initially understated investments by approximately $4.3 million.

Effect. As a result of this condition, the Plan's accounting records were initially misstated by an amount that was quantitatively material to the financial statements. By preparing a trial balance only at year-end, the Plan lacks complete accounting records throughout the year, and is exposed to an increased risk of errors not being detected and corrected in a timely manner.

Recommendation. Since the County is currently in the process of implementing a new financial accounting software system, we recommend that the Plan consider using this system to account for transactions instead of preparing a trial balance manually at year-end.

View of Responsible Officials. Management will review existing procedures and make revisions, as appropriate, in order to allow for a thorough review and approval by an individual with sufficient knowledge of the financial activity.

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