

Kent County  
Voluntary  
Employees'  
Beneficiary  
Association



Year Ended  
December 31,  
2017

Financial  
Statements

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Table of Contents

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report   | 1           |
| Management's Discussion and Analysis   | 3           |
| Financial Statements   |             |
| Statement of Fiduciary Net Position  | 8           |
| Statement of Changes in Fiduciary Net Position   | 9           |
| Notes to Financial Statements  | 11          |
| Required Supplementary Information   |             |
| Schedule of Changes in the County's Net OPEB Liability and Related Ratios  | 22          |
| Schedule of the Net OPEB Liability   | 23          |
| Schedule of Contributions  | 24          |
| Schedule of Investment Returns   | 25          |
| Internal Control and Compliance  |             |
| Independent Auditors' Report on Internal Control over<br>Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed<br>in Accordance with <i>Government Auditing Standards</i> | 29          |



**INDEPENDENT AUDITORS' REPORT**

June 13, 2018

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

**Report on the Financial Statements**

We have audited the financial statements of the *Kent County Voluntary Employees' Beneficiary Association* (the "VEBA", an other postemployment benefits trust fund of the County of Kent, Michigan) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the VEBA'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 financial position of the Kent County Voluntary Employees' Beneficiary Association as of December 31, 2017, 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 Voluntary Employees' Beneficiary Association and do not purport to, and do not, present fairly the financial position of the County of Kent, Michigan as of December 31, 2017, 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.

### *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 VEBA 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 13, 2018 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 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 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.



## 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, 2017. 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, 2017 by \$25,315,572 (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, 2017, (the date of the last actuarial valuation), the funded ratio was 43.12%.
- Additions to net position for the year ended December 31, 2017, were \$8,830,086 which is comprised of contributions of \$3,641,812, implicit rate subsidy of \$1,629,477, net investment income of \$3,554,463, and other revenues of \$4,334.
- Deductions from net position decreased 12.2% from 2016 to 2017 (from \$3,622,100 to \$3,180,251), 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, 2017 and 2016, were \$25,321,822 and \$19,665,737, respectively, and were comprised mainly of investments and receivables. Total assets increased \$5,656,085 or 28.8% from December 31, 2016 to December 31, 2017, primarily due to advance funding based on actuarial calculations and investment returns.

VEBA assets exceeded its liabilities at the close of 2017 by \$25,315,572.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Management's Discussion and Analysis

|                     | Net Position         |                      |
|---------------------|----------------------|----------------------|
|                     | December 31,         |                      |
|                     | 2017                 | 2016                 |
| <b>Assets</b>       |                      |                      |
| Cash                | \$ 562,447           | \$ 709,850           |
| Receivables         | 142,671              | 67,797               |
| Investments         | 24,616,704           | 18,888,090           |
| <b>Total assets</b> | <b>25,321,822</b>    | <b>19,665,737</b>    |
| <b>Liabilities</b>  |                      |                      |
| Accounts payable    | 6,250                | -                    |
| <b>Net position</b> | <b>\$ 25,315,572</b> | <b>\$ 19,665,737</b> |

### *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 2017 and 2016 totaled \$8,830,086 and \$6,147,603, respectively.

Total additions to fiduciary net position increased \$2,682,483 from 2016 to 2017, primarily due to changes in market conditions and employer contributions in excess of the annual required contribution.

### *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 2017 and 2016 were \$3,180,251 and \$3,622,100, respectively.

Benefit payments increased \$81,410 from 2016 to 2017, primarily due to an increase in the number of retirees receiving benefits.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Management's Discussion and Analysis

|   | Changes in Net Position |                      |
|---|-------------------------|----------------------|
|   | Year Ended December 31, |                      |
|   | 2017                    | 2016                 |
| <b>Additions</b>  |                         |                      |
| Contributions   | \$ 3,641,812            | \$ 3,447,521         |
| Contributions - implicit rate subsidy                             | 1,629,477               | 1,716,101            |
| Net investment income   | 3,554,463               | 980,961              |
| Other revenue   | 4,334                   | 3,020                |
| <b>Total additions</b>  | <b>8,830,086</b>        | <b>6,147,603</b>     |
| <b>Deductions</b>   |                         |                      |
| Benefit payments  | 1,516,295               | 1,434,885            |
| Benefit payments - implicit rate subsidy                          | 1,629,477               | 1,716,101            |
| Distribution to Gerald R. Ford International<br>Airport Authority | -                       | 436,193              |
| Administrative expenses   | 34,479                  | 34,921               |
| <b>Total deductions</b>   | <b>3,180,251</b>        | <b>3,622,100</b>     |
| <b>Change in net position</b>                                     | <b>5,649,835</b>        | <b>2,525,503</b>     |
| <b>Net position, beginning of year</b>                            | <b>19,665,737</b>       | <b>17,140,234</b>    |
| <b>Net position, end of year</b>                                  | <b>\$ 25,315,572</b>    | <b>\$ 19,665,737</b> |

### *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 2018 is 1.82% of covered payroll.

### *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 Stephen W. Duarte, Fiscal Services Director, County of Kent, 300 Monroe Ave. NW, Grand Rapids, MI 49503-2221.

## FINANCIAL STATEMENTS

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Statement of Fiduciary Net Position

December 31, 2017

|   |                      |
|---|----------------------|
| Assets  |                      |
| Cash  | \$ 562,447           |
| Receivables   | 142,671              |
| Investments, at fair value:                               |                      |
| Domestic equity mutual funds                              | \$ 10,093,110        |
| International equity mutual funds                         | 5,006,273            |
| Domestic fixed income mutual funds                        | 4,680,037            |
| International fixed income mutual funds                   | 4,837,284            |
| Total investments   | <u>24,616,704</u>    |
| Total assets  | 25,321,822           |
| Liabilities   |                      |
| Accounts payable  | <u>6,250</u>         |
| Net position restricted for other postemployment benefits | <u>\$ 25,315,572</u> |

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, 2017

### Additions

|  |                  |                      |
|--|------------------|----------------------|
| Employer contributions                         |                  | \$ 3,641,812         |
| Employer contributions - implicit rate subsidy |                  | 1,629,477            |
| Investment income:                             |                  |                      |
| Net appreciation in fair value of investments  | \$ 3,074,390     |                      |
| Interest and dividends                         | 537,757          |                      |
| Total investment income                        | <u>3,612,147</u> |                      |
| Investment expense                             | <u>(57,684)</u>  |                      |
| Net investment income                          |                  | 3,554,463            |
| Other revenues                                 |                  | <u>4,334</u>         |
| Total additions                                |                  | <u>8,830,086</u>     |
| Deductions                                     |                  |                      |
| Benefit payments                               |                  | 1,516,295            |
| Benefit payments - implicit rate subsidy       |                  | 1,629,477            |
| Administrative expenses                        |                  | <u>34,479</u>        |
| Total deductions                               |                  | <u>3,180,251</u>     |
| Change in net position                         |                  | 5,649,835            |
| Net position, beginning of year                |                  | <u>19,665,737</u>    |
| Net position, end of year                      |                  | <u>\$ 25,315,572</u> |

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

This page intentionally left blank

## NOTES TO FINANCIAL STATEMENTS

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## 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 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, and is included as an other postemployment benefits trust fund in the County's comprehensive annual financial report.

VEBA membership consisted of the following at December 31, 2017, the date of the most recent actuarial valuation:

|   |                     |
|---|---------------------|
| Retirees and beneficiaries currently receiving benefits | 634                 |
| Active participants                                     | <u>1,503</u>        |
| Total membership  | <u><u>2,137</u></u> |

#### *Benefits Provided*

The County provides a fixed monthly dollar subsidy of up to \$350 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.

#### *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, including judges, and ten collective bargaining units. VEBA members hired through December 31, 2010 are eligible to receive 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, and Circuit Court Referees) are eligible at age 62 with 5 years of service or age 60 (55 for captains and lieutenants) with 25 years of service. VEBA members of the Deputy Sheriff's bargaining unit hired on or after January 1, 2013 are eligible to receive this benefit at age 60 with 5 years of service or age 50 with 25 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. The subsidy is prorated for service less than 25 years. An employee that retires 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.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Notes to Financial Statements

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 his or her 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. Employee and 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.

### *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.

## 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, \$312,447 of the VEBA's bank balance of \$562,447 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Notes to Financial Statements

### 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.

The VEBA's investments are held in seven 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, 2017:

|   |                                 |
|---|---------------------------------|
| Investments at fair value               |                                 |
| Domestic equity mutual funds            | \$ 10,093,110                   |
| International equity mutual funds       | 5,006,273                       |
| Domestic fixed income mutual funds      | 4,680,037                       |
| International fixed income mutual funds | <u>4,837,284</u>                |
| <br>Total investments                   | <br><u><u>\$ 24,616,704</u></u> |

*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/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 be rated A1/P1 unless held in a diversified short-term commingled fund. Equity mutual funds are not subject credit risk. Credit risk ratings of the VEBA's fixed income mutual funds at year-end are summarized as follows:

|                                     | Domestic Fixed<br>Income | International<br>Fixed Income | Total                   |
|-------------------------------------|--------------------------|-------------------------------|-------------------------|
| Fixed income mutual funds           |                          |                               |                         |
| Morningstar 4 stars                 | \$ 4,680,037             | \$ -                          | \$ 4,680,037            |
| Unrated                             | -                        | 4,837,284                     | <u>4,837,284</u>        |
| <br>Total fixed income mutual funds | <br><u>\$ 4,680,037</u>  | <br><u>\$ 4,837,284</u>       | <br><u>\$ 9,517,321</u> |

*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 are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Notes to Financial Statements

*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 and its agencies, no more than 3% of the portfolio shall be invested in the obligations of any one issuer. For domestic 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 VEBA'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. At December 31, 2017, 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, 2017 was \$9,843,557. This amount was comprised of international equity mutual funds and international fixed income mutual funds denominated in U.S. dollars.

*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 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 1.43 to 5.66 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, 2017:

|   | Level 1              | Level 2             | Level 3     | Total                |
|---|----------------------|---------------------|-------------|----------------------|
| Domestic equity mutual funds            | \$ 2,444,218         | \$ 7,648,892        | \$ -        | \$ 10,093,110        |
| International equity mutual funds       | 5,006,273            | -                   | -           | 5,006,273            |
| Domestic fixed income mutual funds      | 4,680,037            | -                   | -           | 4,680,037            |
| International fixed income mutual funds | 3,077,054            | 1,760,230           | -           | 4,837,284            |
| <b>Total investments</b>                | <b>\$ 15,207,582</b> | <b>\$ 9,409,122</b> | <b>\$ -</b> | <b>\$ 24,616,704</b> |

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Notes to Financial Statements

### 4. NET OPEB LIABILITY OF THE COUNTY

*Net OPEB Liability.* The components of the net OPEB liability of the County at December 31, 2017, were as follows:

|   |                      |
|---|----------------------|
| Total OPEB liability  | \$ 58,712,816        |
| Plan fiduciary net position                                       | <u>25,315,572</u>    |
| County's net OPEB liability                                       | <u>\$ 33,397,244</u> |
| Plan fiduciary net position as percentage of total OPEB liability | 43.12%               |

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017, using the following 2017 actuarial assumptions, applied to all periods included in the measurement:

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Entry-age normal  |
| Amortization method           | Level percentage of payroll, Open   |
| Remaining amortization period | 23 years  |
| Asset valuation method        | Market value of assets  |
| Price inflation               | 2.5%  |
| Salary increases              | 4.0% to 11.0%, including inflation  |
| Investment rate of return     | 7.0%, 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 2013 valuation pursuant to the January 1, 2008 - December 31, 2012 Experience Study for the Retirement Plan and Trust. |
| Mortality                     | The RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2015 Mortality Improvement Scales. These tables were first used for the December 31, 2015 valuation                          |
| Health care trend rates       | Trend starting at 9.0% gradually decreasing to an ultimate trend rate of 4.0%.  |
| 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, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 17.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Notes to Financial Statements

The 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, 2017 (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                | 20.00%                | 2.74%                                  | 0.55%                                  |
| Multi-sector fixed income | 15.00%                | 3.60%                                  | 0.54%                                  |
| Liquid absolute return    | 5.00%                 | 3.42%                                  | 0.17%                                  |
| U.S. large cap equity     | 30.00%                | 7.53%                                  | 2.26%                                  |
| U.S. small cap equity     | 10.00%                | 8.79%                                  | 0.88%                                  |
| Non U.S. equity           | <u>20.00%</u>         | 8.73%                                  | <u>1.75%</u>                           |
| Total                     | <u><u>100.00%</u></u> |  | 6.15%                                  |
| Inflation                 |                       |  | 2.50%                                  |
| Risk adjustment           |                       |  | <u>-1.65%</u>                          |
| Investment rate of return |                       |  | <u><u>7.00%</u></u>                    |

*Discount Rate.* The discount rate used to measure the total OPEB 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 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 VEBA liability.

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## 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<br>(a) | Plan Fiduciary Net Position<br>(b) | Net OPEB Liability<br>(a) - (b) |
|--|-----------------------------|------------------------------------|---------------------------------|
| Balances at December 31, 2016                                    | \$ 53,997,661               | \$ 19,665,737                      | \$ 34,331,924                   |
| Changes for the year:  |                             |                                    |                                 |
| Service cost   | 1,127,286                   | -                                  | 1,127,286                       |
| Interest on total OPEB liability                                 | 3,974,131                   | -                                  | 3,974,131                       |
| Changes of assumptions   | 2,759,510                   | -                                  | 2,759,510                       |
| Employer contributions   | -                           | 5,271,289                          | (5,271,289)                     |
| Net investment income  | -                           | 3,554,463                          | (3,554,463)                     |
| Benefit payments, including refunds<br>of employee contributions | (3,145,772)                 | (3,145,772)                        | -                               |
| Administrative expense   | -                           | (34,479)                           | 34,479                          |
| Other  | -                           | 4,334                              | (4,334)                         |
| Net changes  | 4,715,155                   | 5,649,835                          | (934,680)                       |
| Balances at December 31, 2017                                    | \$ 58,712,816               | \$ 25,315,572                      | \$ 33,397,244                   |

*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 7.00%, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

|                             | 1% Decrease<br>(6.00%) | Current<br>Discount Rate<br>(7.00%) | 1% Increase<br>(8.00%) |
|-----------------------------|------------------------|-------------------------------------|------------------------|
| County's net OPEB liability | \$ 39,695,669          | \$ 33,397,244                       | \$ 27,986,354          |

*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 (8.0% decreasing to 3.0%) or 1% higher (10.0% decreasing to 5.0%) than the current healthcare cost trend rates:

|                             | 1% Decrease<br>(8.0%<br>Decreasing to<br>3.0%) | Healthcare<br>Cost Trend<br>Rates (9.0%<br>Decreasing to<br>4.0%) | 1% Increase<br>(10.0%<br>Decreasing to<br>5.0%) |
|-----------------------------|--|---|---|
| County's net OPEB liability | \$ 30,480,409                                  | \$ 33,397,244   | \$ 36,779,756                                   |

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## ■ Notes to Financial Statements

### 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.

■ ■ ■ ■ ■

This page intentionally left blank

## 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<br>December 31,<br>2017 |
|--|------------------------------------|
| Total OPEB liability   |                                    |
| Service cost   | \$ 1,127,286                       |
| Interest   | 3,974,131                          |
| Changes of assumptions   | 2,759,510                          |
| Benefit payments, including refunds<br>of employee contributions       | (3,145,772)                        |
| Net change in total OPEB liability                                     | <u>4,715,155</u>                   |
| Total OPEB liability, beginning of year                                | <u>53,997,661</u>                  |
| Total OPEB liability, end of year                                      | <u>58,712,816</u>                  |
| Plan fiduciary net position  |                                    |
| Employer contributions   | 5,271,289                          |
| Net investment income  | 3,554,463                          |
| Benefit payments, including refunds<br>of employee contributions       | (3,145,772)                        |
| Administrative expense   | (34,479)                           |
| Other  | 4,334                              |
| Net change in plan fiduciary net position                              | <u>5,649,835</u>                   |
| Plan fiduciary net position, beginning of year                         | <u>19,665,737</u>                  |
| Plan fiduciary net position, end of year                               | <u>25,315,572</u>                  |
| County's net OPEB liability  | <u>\$ 33,397,244</u>               |
| Plan fiduciary net position as a percentage<br>of total OPEB liability | 43.12%                             |
| Covered payroll  | <u>\$ 88,846,626</u>               |
| County's net OPEB liability as a percentage<br>of covered payroll      | 37.59%                             |

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

# 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%  |

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

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## 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%  |

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

#### Notes to 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, Open   |
| Remaining amortization period | 30 years  |
| Asset valuation method        | Market value of assets  |
| Price inflation               | 2.5%  |
| Salary increases              | 4.0% to 11.0%, including inflation  |
| Investment rate of return     | 7.5%, 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 2013 valuation pursuant to the January 1, 2008 - December 31, 2012 Experience Study for the Retirement Plan and Trust. |
| Mortality                     | The RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2015 Mortality Improvement Scales. These tables were first used for the December 31, 2015 valuation                          |
| Health care trend rates       | Trend starting at 9.0% gradually decreasing to an ultimate trend rate of 4.0%.  |
| 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  |
| Notes                         | There were no benefit changes during the year. The County voluntarily made the 2017 contribution based on a 24-year closed amortization period.   |

# KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Required Supplementary Information

### Schedule of Investment Returns

| Fiscal Year Ended December 31, | Annual Return <sup>(1)</sup> |
|--------------------------------|------------------------------|
| 2017                           | 17.76%                       |

<sup>(1)</sup> Annual money-weighted rate of return, net of investment expenses

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

This page intentionally left blank

## INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank

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 13, 2018

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* (an other postemployment benefits trust fund of the County of Kent, Michigan, the "VEBA"), as of and for the year ended December 31, 2017, 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 13, 2018.

#### 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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 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 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 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.

A handwritten signature in black ink that reads "Rehmann Robson LLC". The signature is written in a cursive, flowing style.