Kent County Employees' Retirement Plan

Year Ended December 31, 2018

Financial Statements

Rehmann

Business wisdom delivered.

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Table of Contents

■ ■ ■ ■ ■

Rehmann

Rehmann Robson

2330 East Paris Ave. SE
Grand Rapids, MI 49546
Ph: 616.975.4100
Fx: 616.975.4400
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

June 10, 2019

Members of the Pension Board 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, 2018, 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, 2018, 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, 2018, 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 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 10, 2019, 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

Management's Discussion and Analysis

The following is a discussion and analysis of the financial performance and position of the Kent County Employees' Retirement Plan (the “Plan”) for the year ended December 31, 2018. 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, 2018 by $823,240,227 (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, 2018, the date of the most recent actuarial valuation, the plan fiduciary net position as a percentage of the total pension liability was 91.4%.
- Additions (net of investment losses) to net position for the year ended December 31, 2018 were $(31,977,385) which is comprised of contributions of $18,254,797 and a net investment loss of $(50,232,182).
- Deductions from net position increased 5.5% from 2017 to 2018 from $39,510,699 to $41,702,283, respectively.

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, 2018 and 2017 were $824,744,440 and $897,836,544, respectively, and were comprised mainly of investments and receivables. Total assets decreased $73,092,104 or -8.1% from December 31, 2017 to December 31, 2018, primarily from net depreciation in the fair value of investments.

Total liabilities as of December 31, 2018 were $1,504,213, and consisted of amounts payable for management fees and amounts due to brokers. Total liabilities increased $587,564 or approximately 64.1% from December 31, 2017 to December 31, 2018, primarily due to the timing of management fee payments.

Plan assets exceeded its liabilities at the close of 2018 by $823,240,227.

Management's Discussion and Analysis

	Net Position	
	December 31,	
	2018	2017
Assets		
Cash	$ 80	$ 19
Receivables	2,317,187	2,250,401
Investments	822,427,173	895,586,124
Total assets	824,744,440	897,836,544
Liabilities		
Accounts payable	934,373	884,225
Due to brokers	569,840	32,424
Total liabilities	1,504,213	916,649
Total net position	$ 823,240,227	$ 896,919,895

Revenue - Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are accumulated through the collection of contributions and through earnings on investments. Contributions and the net investment loss for fiscal year 2018 totaled $(31,977,385). This represents a decrease of $180,318,719 from the prior year primarily due to weak investment returns in the current year, which are expected to fluctuate from year to year based on current market conditions.

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 2018 and 2017 were $41,702,283 and $39,510,699, respectively.

Pension benefit payments increased by $2,249,238 or 5.9% from $38,366,716 to $40,615,954 from 2017 to 2018, respectively. Benefit payments may fluctuate annually based on the mix of retirees currently receiving benefits.

	Changes in Net Position	
	Year Ended December 31,	
	2018	2017
Additions		
Contributions	$ 18,254,797	$ 18,240,351
Net investment income (loss)	(50,232,182)	130,100,983
Total additions	(31,977,385)	148,341,334
Deductions		
Benefit payments	40,615,954	38,366,716
Administrative expenses	536,943	665,347
Refunds of contributions	549,386	478,636
Total deductions	41,702,283	39,510,699
Change in net position	(73,679,668)	108,830,635
Net position, beginning of year	896,919,895	788,089,260
Net position, end of year	$ 823,240,227	$ 896,919,895

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.

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.

BASIC FINANCIAL STATEMENTS

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Statement of Fiduciary Net Position

December 31, 2018

Assets		
Cash		$ 80
Receivables:		
Accrued interest receivable	$ 938,185	
Contributions receivable	751,409	
Due from brokers	627,593	
Total receivables		2,317,187
Investments, at fair value:		
U.S. government obligations	41,615,877	
U.S. government agency obligations	2,065,033	
Municipal obligations	503,493	
Corporate obligations	29,859,424	
Common stock	301,325,244	
Foreign obligations	7,668,568	
Foreign common stock	1,463,140	
Money market funds	23,926,662	
International equity mutual funds	153,700,965	
International fixed income mutual funds	134,932,214	
Real estate and infrastructure securities	67,874,315	
Asset-backed securities	8,989,140	
Mortgage-backed securities fund	48,503,098	
Total investments		822,427,173
Total assets		824,744,440
Liabilities		
Accounts payable		934,373
Due to brokers		569,840
Total liabilities		1,504,213
Net position restricted for pension benefits		$ 823,240,227

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, 2018

Additions		
Contributions:		
Employer	$ 8,939,628	
Employee	9,315,169	
Total contributions		$ 18,254,797
Investment earnings (loss):		
Net depreciation in fair value of securities	(63,730,691)	
Interest	3,947,160	
Dividends	13,216,749	
Total investment loss	(46,566,782)	
Investment expense	(3,665,400)	
Net investment earnings (loss)		(50,232,182)
Total additions (net of investment losses)		(31,977,385)
Deductions		
Benefit payments		40,615,954
Administrative expenses		536,943
Refunds of contributions		549,386
Total deductions		41,702,283
Change in net position		(73,679,668)
Net position, beginning of year		896,919,895
Net position, end of year		$ 823,240,227

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

This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

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. The Plan is administered by the County; 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, 2018, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits	1,475
Terminated employees entitled to but not yet receiving benefits	259
Vested and non-vested active participants	1,528
Total membership	3,262

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, 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 60 with 5 years of service or age 50 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 FOP bargaining unit hired on or after January 1, 2015 are eligible to receive this benefit at age 60 with 5 or more years of service 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 8.63% for the year ended December 31, 2018. 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 (8.5% for road patrol) and ranged from 1.75%-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, 2018, was 9.22% 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 22 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 as described in Note 3.

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, 2018, was $23,926,742, of which the insured amount was $3,413,276. The remaining balance of $20,513,466 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 Pension Board is responsible for adopting the investment policies and strategies, and retaining/monitoring the various investment managers, 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 Pension Board. 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, 2018 is detailed in Note 4.

Rate of Return. For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -5.75%. 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 17 portfolios administered by various investment managers. Following is a summary of the Plan's investments (at fair value, as determined by quoted market price) as of December 31, 2018:

U.S. government obligations	$ 41,615,877
U.S. government agency obligations	2,065,033
Municipal obligations	503,493
Corporate obligations	29,859,424
Common stock	301,325,244
Foreign obligations	7,668,568
Foreign common stock	1,463,140
Money market funds	23,926,662
International equity mutual funds	153,700,965
International fixed income mutual funds	134,932,214
Real estate and infrastructure securities	67,874,315
Asset-backed securities	8,989,140
Mortgage-backed securities fund	48,503,098
Total investments	$ 822,427,173

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, 2018, the Plan's investments were rated as follows:

Standard and Poor's AAA	$ 7,583,499
Standard and Poor's AA	5,119,899
Standard and Poor's A	13,696,124
Standard and Poor's BBB	18,528,468
Standard and Poor's BB	59,313
Standard and Poor's B	15,772
Unrated	135,837,562
Not subject to credit risk	641,586,536
Total investments	$ 822,427,173

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, 2018, the Plan had no investment in a single issuer, other than U.S. treasuries and agencies, that exceeded the above percentages.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. Country exposures are monitored through a quarterly performance report. The Plan's exposure to foreign currency risk as of December 31, 2018 in U.S. dollars is as follows:

Foreign obligations	$ 7,668,568
Foreign common stock	1,463,140
International equity mutual funds	153,700,965
International fixed income mutual funds	134,932,214
Total	$ 297,764,887

Notes to Financial Statements

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The 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. At December 31, 2018, maturities of the Plan's investments were as follows:

Less than 1 year	$ 7,101,470
1 - 5 years	29,179,227
6 - 10 years	29,820,323
More than 10 years	24,600,515
No maturity	731,725,638
Total investments	$ 822,427,173

Fair Value Measurement. The Plan 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; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
U.S. government obligations	$ -	$ 41,615,877	$ -	$ 41,615,877
U.S. government agency obligations	-	2,065,033	-	2,065,033
Municipal obligations	-	503,493	-	503,493
Corporate obligations	-	29,859,424	-	29,859,424
Common stock	301,325,244	-	-	301,325,244
Foreign obligations	-	7,668,568	-	7,668,568
Foreign common stock	1,463,140	-	-	1,463,140
International equity mutual funds	-	153,700,965	-	153,700,965
International fixed income mutual funds	41,133,839	42,727,485	51,070,890	134,932,214
Real estate and infrastructure securities	-	-	67,874,315	67,874,315
Asset-backed securities	-	8,989,140	-	8,989,140
Mortgage-backed securities fund	-	48,503,098	-	48,503,098
Total investments by fair value level	$ 343,922,223	$ 335,633,083	$ 118,945,205	798,500,511
Money market fund measured at amortized cost (which approximates fair value)				23,926,662
Total investments				$ 822,427,173

Fair value methodologies are summarized by investment type as follows:

Debt securities are valued by the Plan's investment custodian using various independent pricing services based on the type of asset. The pricing services may use valuation models or matrix pricing, which consider: (a) benchmark yields, (b) reported trades, (c) broker/dealer quotes, (d) benchmark securities, (e) bids or offers, and (f) reference data.

Securities traded on a national or international exchange are valued at the last quoted sales price on the primary exchange or market on which they are traded.

Investments in mutual funds are valued based on the net asset value as of the last business day of the month as calculated by the respective fund managers. This amount is typically representative of the current trade value of the fund (unless the Plan has reason to believe that this is not the most appropriate indicator of fair value).

Real estate and infrastructure investments are externally appraised on an annual basis by a reputable, independent appraisal firm (coordinated by the fund's trustee). Key inputs and assumptions used to determine fair value of real estate infrastructure include rental revenue and expense (and the related growth rate), terminal capital rates and discount rates. Development investments are valued using cost-incurred-to-date as a primary input until substantive progress is achieved.

Asset-backed and mortgage-backed securities funds are valued based on the future cash flows of the principal and interest payments of the underlying collateral of mortgages on various assets.

Certain investments are subject to redemption restrictions. Real estate and infrastructure securities are restricted based on the applicable portfolio: (a) quarterly with a 45-day written notice, or (b) on March 31 or September 30 with a 90-day notice. Equity mutual funds are generally restricted to redemption on the first or last day of each month. All other investments are subject to daily redemption.

4. NET PENSION LIABILITY OF THE COUNTY

Net Pension Liability. The components of the net pension liability of the County at December 31, 2018, were as follows:

Total pension liability	$ 900,799,146
Plan fiduciary net pension	823,240,227
County's net pension liability	$ 77,558,919
Plan fiduciary net position as a percentage of the total pension liability	91.39%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2017 (rolled forward to December 31, 2018), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% (price inflation of 2.5%)
Salary increases	3.5 to 10.5%, including inflation
Investment rate of return	6.75%

Mortality rates were based on the RP-2014 Combined Healthy Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2018 Mortality Improvement Scales.

The actuarial assumptions used in the December 31, 2017 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, 2018 (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
Core bonds	18.00%	2.62%	0.47%
Multi-sector fixed income	10.00%	3.49%	0.35%
Absolute return	5.00%	3.75%	0.19%
U.S. large cap equity	30.00%	7.20%	2.16%
U.S. small cap equity	10.00%	8.41%	0.84%
International developed equity	15.00%	8.14%	1.22%
Emerging market equity	5.00%	9.39%	0.47%
Core real estate	5.00%	6.75%	0.34%
Infrastructure	2.00%	9.79%	0.20%
Total	100.00%		6.24%
Inflation			2.50%
Risk adjustment			-1.99%
Investment rate of return			6.75%

Discount Rate. The discount rate used to measure the total pension liability was 6.75%. 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 (Asset). The components of the change in the net pension liability (asset) are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2017	$ 859,986,247	$ 896,919,895	$ (36,933,648)
Changes for the year:			
Service cost	17,404,156	-	17,404,156
Interest on total pension liability	59,367,396	-	59,367,396
Differences between expected and actual experience	5,037,610	-	5,037,610
Assumption changes	169,077	-	169,077
Employer contributions	-	8,939,628	(8,939,628)
Employee contributions	-	9,315,169	(9,315,169)
Net investment loss	-	(50,232,182)	50,232,182
Benefit payments	(40,615,954)	(40,615,954)	-
Administrative expenses	-	(536,943)	536,943
Refunds of contributions	(549,386)	(549,386)	-
Net changes	40,812,899	(73,679,668)	114,492,567
Balances at December 31, 2018	$ 900,799,146	$ 823,240,227	$ 77,558,919

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 6.75%, 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 (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	One Percent Decrease (5.75%)	Current Discount Rate (6.75%)	One Percent Increase (7.75%)
County's net pension liability (asset)	$ 199,475,158	$ 77,558,919	$ (26,069,333)

5. 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 Pension Board and County employees administering the Plan against allegations of breach of fiduciary responsibility. The policy includes an aggregate claim limit of $3,000,000.

■ ■ ■ ■ ■

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Required Supplementary Information

Schedule of Changes in the County's Net Pension Liability (Asset) and Related Ratios

	Year Ended December 31,				
	2014	2015	2016	2017	2018
Total pension liability					
Service cost	$ 16,145,491	$ 15,924,610	$ 16,888,031	$ 16,899,725	$ 17,404,156
Interest on total pension liability	49,676,858	51,987,575	54,926,464	57,510,730	59,367,396
Benefit changes	-	(476,713)	(185,975)	-	-
Difference between expected and actual experience	-	(8,805,534)	12,418,940	(8,133,524)	5,037,610
Assumption changes	-	27,445,379	-	-	169,077
Benefit payments	(31,099,736)	(33,243,393)	(35,536,696)	(38,366,716)	(40,615,954)
Refunds of contributions	(582,890)	(477,321)	(725,789)	(478,636)	(549,386)
Distribution to Gerald R. Ford International Airport Authority	-	-	(19,162,598)	-	-
Net change in total pension liability	34,139,723	52,354,603	28,622,377	27,431,579	40,812,899
Total pension liability, beginning of year	717,437,965	751,577,688	803,932,291	832,554,668	859,986,247
Total pension liability, end of year	751,577,688	803,932,291	832,554,668	859,986,247	900,799,146
Plan fiduciary net position					
Employer contributions	8,929,617	8,858,387	7,153,893	8,965,098	8,939,628
Employee contributions	9,209,179	9,364,823	9,131,552	9,275,253	9,315,169
Net investment income (loss)	47,055,073	(1,703,474)	55,834,348	130,100,983	(50,232,182)
Benefit payments	(31,099,736)	(33,243,393)	(35,536,696)	(38,366,716)	(40,615,954)
Administrative expenses	(745,779)	(600,482)	(574,511)	(665,347)	(536,943)
Refunds of contributions	(582,890)	(477,321)	(725,789)	(478,636)	(549,386)
Distribution to Gerald R. Ford International Airport Authority	-	-	(19,162,598)	-	-
Net change in plan fiduciary net position	32,765,464	(17,801,460)	16,120,199	108,830,635	(73,679,668)
Plan fiduciary net position, beginning of year	757,005,057	789,770,521	771,969,061	788,089,260	896,919,895
Plan fiduciary net position, end of year	789,770,521	771,969,061	788,089,260	896,919,895	823,240,227
County's net pension liability (asset)	$(38,192,833)	$ 31,963,230	$ 44,465,408	$(36,933,648)	$ 77,558,919
Plan fiduciary net position as a percentage of total pension liability	105.08%	96.02%	94.66%	104.29%	91.39%
Covered payroll [1]	$ 91,944,708	$ 90,602,575	$ 96,286,815	$ 88,577,675	$ 91,815,718
County's net pension liability (asset) as a percentage of covered payroll	-41.54%	35.28%	46.18%	-41.70%	84.47%

(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

Schedule of the County's Net Pension Liability (Asset)

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 (Asset) 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%
2016	832,554,668	788,089,260	44,465,408	94.66%	96,286,815	46.18%
2017	859,986,247	896,919,895	(36,933,648)	104.29%	88,577,675	-41.70%
2018	900,799,146	823,240,227	77,558,919	91.39%	91,815,718	84.47%

(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

Schedule of County Contributions

Year Ended December 31,	Actuarially [2] Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2009	$ 5,006,344	$ 5,006,344	$ -	$ 94,508,103	5.30%
2010	6,747,873	6,747,873	-	92,487,613	7.30%
2011	8,412,960	8,412,960	-	90,889,046	9.26%
2012	8,547,559	8,547,559	-	91,209,371	9.37%
2013	9,741,061	9,741,061	-	91,944,708	10.59%
2014	8,929,617	8,929,617	-	90,602,575	9.86%
2015	8,858,387	8,858,387	-	96,286,815	9.20%
2016	7,153,893	7,153,893	-	88,577,675	8.08%
2017	8,965,098	8,965,098	-	91,815,718	9.76%
2018	8,939,628	8,939,628	-	97,993,092	9.12%

[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. The actuarial assumptions noted below relate to the most recent valuation, dated December 31, 2017. Changes in assumptions have been identified where applicable.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	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 (In the 2014 and prior valuations, the RP-2000 Combined Healthy Mortality Table for males and females projected to the year 2017 using Scale BB with a margin for future mortality improvement was used)
Cost-of-living adjustment	Varies from 1% to 3%, depending on union

Other Information

Notes	The employer contribution for FY 2018 was determined in the December 31, 2016 actuarial valuation.

KENT COUNTY EMPLOYEES' RETIREMENT PLAN

Required Supplementary Information

Schedule of Investment Returns

Year Ended December 31,	Annual Return[3]
2014	6.34%
2015	-0.31%
2016	7.37%
2017	16.68%
2018	-5.75%

[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.

This page intentionally left blank.

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

Rehmann

Rehmann Robson

2330 East Paris Ave. SE
Grand Rapids, MI 49546
Ph: 616.975.4100
Fx: 616.975.4400
www.rehmann.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 10, 2019

Members of the Pension Board 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, 2018, 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 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC