

Kalamazoo County Employees'  
Retirement System  
and  
Kalamazoo County Retiree Medical  
Benefits Plan

Years Ended  
December 31,  
2018 and 2017

Financial  
Statements

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

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## INDEPENDENT AUDITORS' REPORT

April 18, 2019

Kalamazoo County Board of Commissioners  
Kalamazoo County Employees' Retirement System  
Kalamazoo County Retiree Medical Benefits Plan  
Kalamazoo, Michigan

## Report on the Financial Statements

We have audited the financial statements of the *Kalamazoo County Employees' Retirement System* (the "System", a pension trust fund of the County of Kalamazoo, Michigan) and the *Kalamazoo County Retiree Medical Benefits Plan* (the "Plan", an other postemployment benefit (OPEB) trust fund of the County of Kalamazoo, Michigan), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Kalamazoo County Employees' Retirement System and the Kalamazoo County Retiree Medical Benefits Plan as of December 31, 2018 and 2017, and the change in fiduciary net position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Reporting Entity*

As discussed in Notes 1 and 2, the financial statements present only the Kalamazoo County Employees' Retirement System and the Kalamazoo County Retiree Medical Benefits Plan (trust funds of the County of Kalamazoo, Michigan) and do not purport to, and do not, present fairly the financial position of the County of Kalamazoo, Michigan as of December 31, 2018 and 2017, and the changes in its financial position for the years 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 and other postemployment benefit 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 April 18, 2019, on our consideration of the System's and 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 System's and Plan's internal control over financial reporting and compliance.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Management's Discussion and Analysis

This section of the Kalamazoo County Employees' Retirement System's (the "System") and the Kalamazoo County Retiree Medical Benefits Plan (the "Plan") annual financial statements presents a discussion and analysis of the financial performance of the System and Plan for the years ended December 31, 2018 and 2017, with comparable information for the year ended December 31, 2016. This discussion, prepared by management along with the financial statements, should be read in conjunction with, and is qualified in its entirety by, the financial statements. This discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. The financial statements and this discussion are the responsibility of management.

### Financial Highlights

- Assets exceeded liabilities at December 31, 2018 by \$222,748,846 (reported as net position). At December 31, 2017, assets exceeded liabilities by \$245,843,193.
- Additions (net of investment losses) to net position for the year ended December 31, 2018 were \$(10,313,495), which are comprised of contributions of \$6,885,050 and net investment loss of \$17,198,545. Contributions of \$7,029,866 were made during the year ended December 31, 2017, and net investment income of \$34,370,023 was recognized.
- Deductions from net position decreased 18.6% from 2017 to 2018 (from \$15,697,079 to \$12,780,852), and were comprised primarily of benefit payments to plan members.

### Using the Financial Statements

The System's and Plan's financial report includes two financial statements: the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. 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 additions and deductions are taken into account regardless of when cash is received or paid.

The Statements of Fiduciary Net Position present all of the System's and 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 financial position is improving or deteriorating. The Statements of Changes in Fiduciary Net Position present how the System's and Plan's net position changed during the most recent year. These two financial statements should be reviewed along with the schedules of pension and other postemployment benefit information (presented after the footnotes as required supplementary information) to determine whether the System and Plan are becoming financially stronger or weaker and to understand changes over time in the funded status of the System and Plan.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Management's Discussion and Analysis

A summarized comparison of the System's and Plan's assets, liabilities and net position is as follows:

	Net Position		
	2018	2017	2016
<b>Assets</b>			
Cash and cash equivalents	\$ 7,312,683	\$ 11,375,287	\$ 7,616,488
Investments	219,987,920	244,471,389	216,347,199
Other	837,702	2,877,112	1,220,996
<b>Total assets</b>	<u>228,138,305</u>	<u>258,723,788</u>	<u>225,184,683</u>
<b>Liabilities</b>			
Accounts payable	296,079	194,762	102,256
Benefits payable	1,265,290	1,682,458	947,843
Purchases of investments	3,828,090	11,003,375	3,994,201
<b>Total liabilities</b>	<u>5,389,459</u>	<u>12,880,595</u>	<u>5,044,300</u>
<b>Total net position</b>	<u>\$222,748,846</u>	<u>\$ 245,843,193</u>	<u>\$ 220,140,383</u>

Total assets as of December 31, 2018 were \$228,138,305 and were mostly comprised of investments. Total assets decreased \$30,585,483 or 11.8% from the prior year primarily due to a decrease in investment returns. Total assets as of December 31, 2017 were \$258,723,788 and were mostly comprised of investments. Total assets increased \$33,539,105 or 14.9% from 2016 primarily due to an increase in investment returns.

Total liabilities as of December 31, 2018 were \$5,389,459. Total liabilities decreased \$7,491,136 or 58.2% from the prior year primarily due to changes in the liability for pending purchases of investments. Total liabilities as of December 31, 2017 were \$12,880,595. Total liabilities increased \$7,836,295 or 155.3% from 2016 primarily due to changes in the liability for pending purchases of investments.

Assets exceeded its liabilities at the close of fiscal years 2018 and 2017 by \$222,748,846 and \$245,843,193, respectively. Total net position held in trust for pension and other postemployment benefits fluctuated during the years primarily due to net investment income and losses.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Management's Discussion and Analysis

A summarized comparison of the System's and Plan's additions, deductions, and changes in net position is as follows:

	Changes in Net Position		
	Year Ended December 31,		
	2018	2017	2016
<b>Additions</b>			
Contributions	\$ 6,885,050	\$ 7,029,866	\$ 5,556,715
Net investment earnings (loss)	(17,198,545)	34,370,023	24,555,159
<b>Total additions (net of investment losses)</b>	<b>(10,313,495)</b>	<b>41,399,889</b>	<b>30,111,874</b>
<b>Deductions</b>			
Benefit payments	12,234,605	15,234,984	13,266,800
Other	546,247	462,095	632,493
<b>Total deductions</b>	<b>12,780,852</b>	<b>15,697,079</b>	<b>13,899,293</b>
<b>Change in net position</b>	<b>(23,094,347)</b>	<b>25,702,810</b>	<b>16,212,581</b>
<b>Net position, beginning of year</b>	<b>245,843,193</b>	<b>220,140,383</b>	<b>203,927,802</b>
<b>Net position, end of year</b>	<b>\$222,748,846</b>	<b>\$ 245,843,193</b>	<b>\$ 220,140,383</b>

#### 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 \$(10,313,495). This represents a decrease of \$51,713,384 from the prior year primarily due to poor investment returns in the current year, which are expected to fluctuate from year to year based on current market conditions. Fiscal year 2017 contributions and net investment income totaled \$41,399,889. This represents an increase of \$11,288,015 from the prior year primarily due to strong investment earnings in 2017.

#### Deductions from Net Position

The primary expenses include the payment of pension benefits to members and beneficiaries and the cost of administering the System and Plan. Total deductions for the year ended December 31, 2018 were \$12,780,852, a decrease of \$2,916,227 from the prior year. Total deductions for the year ended December 31, 2017 were \$15,697,079, an increase of \$1,797,786 from the prior year.

Differences in benefit payments may occur for various reasons, but are primarily related to the number of new retirees receiving benefits and whether new retirees elect to receive monthly payments or lump sum distributions. Pension benefit payments decreased by \$3,000,379 or 19.7% in 2018 and increased by \$1,968,184 or 14.8% in 2017.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Management's Discussion and Analysis

### Economic Factors and Next Year's Budget and Rates

The System's and Plan's purpose is to provide long-term benefit payments to its members through long-term investing. Through its investment policy, the System and Plan have positioned the investment portfolio to achieve this long-term objective.

In addition, to maximize investment returns and preserve fund assets, the System and Plan carefully monitor the performance of each of its investment managers and takes the necessary corrective action to ensure acceptable investment results.

### Requests for Financial Information

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of the System's and Plan's financial position. If you have questions about this report or need additional financial information, contact:

Office of Finance  
Kalamazoo County Employees' Retirement System  
Kalamazoo County Retiree Medical Benefits Plan  
201 West Kalamazoo Avenue  
Kalamazoo, Michigan 49007

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## BASIC FINANCIAL STATEMENTS

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Statement of Fiduciary Net Position**

December 31, 2018

	Employees' Retirement System	Retiree Medical Benefits Plan	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,480,875	\$ 2,831,808	\$ 7,312,683
Investments, at fair value:			
U.S. government securities	27,038,855	2,194,084	29,232,939
U.S. agency securities	6,429,205	521,702	6,950,907
Corporate obligations	14,618,868	1,186,256	15,805,124
Foreign corporate obligations	2,384,932	193,527	2,578,459
Mortgage-backed funds	2,775,252	225,199	3,000,451
Domestic equity mutual funds/ collective trust funds	97,221,773	7,889,118	105,110,891
Emerging market mutual funds	20,953,087	1,700,251	22,653,338
International equity mutual funds	20,804,239	1,688,172	22,492,411
Real estate investment trust	4,980,014	404,106	5,384,120
Real estate pooled separate account	6,270,460	508,820	6,779,280
Receivables:			
Sale of investments	300,320	24,370	324,690
Interest and dividends	338,405	27,460	365,865
Employer contributions	18,655	-	18,655
Other	4,969	123,523	128,492
<b>Total assets</b>	<b>208,619,909</b>	<b>19,518,396</b>	<b>228,138,305</b>
<b>Liabilities</b>			
Accounts payable	115,407	180,672	296,079
Benefits payable	1,247,593	17,697	1,265,290
Purchase of investments	3,540,772	287,318	3,828,090
<b>Total liabilities</b>	<b>4,903,772</b>	<b>485,687</b>	<b>5,389,459</b>
<b>Net position restricted for</b>			
Employees' pension benefits	203,716,137	-	203,716,137
Other postemployment benefits	-	19,032,709	19,032,709
<b>Total net position</b>	<b>\$ 203,716,137</b>	<b>\$ 19,032,709</b>	<b>\$ 222,748,846</b>

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

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Statement of Fiduciary Net Position**

December 31, 2017

	Employees' Retirement System	Retiree Medical Benefits Plan	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 9,199,587	\$ 2,175,700	\$ 11,375,287
Investments, at fair value:			
U.S. government securities	29,656,426	2,093,934	31,750,360
U.S. agency securities	5,774,105	407,689	6,181,794
Corporate obligations	15,657,562	1,105,524	16,763,086
Foreign corporate obligations	2,815,126	198,766	3,013,892
Mortgage-backed funds	1,393,894	98,418	1,492,312
Domestic equity mutual funds/ collective trust funds	115,019,507	8,121,116	123,140,623
Emerging market mutual funds	23,488,447	1,658,435	25,146,882
International equity mutual funds	23,116,620	1,632,181	24,748,801
Real estate investment trust	5,531,737	390,576	5,922,313
Real estate pooled separate account	5,895,094	416,232	6,311,326
Receivables:			
Sale of investments	2,173,622	153,472	2,327,094
Interest and dividends	368,500	26,020	394,520
Employer contributions	66,269	-	66,269
Other	17,224	72,005	89,229
<b>Total assets</b>	<b>240,173,720</b>	<b>18,550,068</b>	<b>258,723,788</b>
<b>Liabilities</b>			
Accounts payable	111,072	83,690	194,762
Benefits payable	1,555,040	127,418	1,682,458
Purchase of investments	10,277,703	725,672	11,003,375
<b>Total liabilities</b>	<b>11,943,815</b>	<b>936,780</b>	<b>12,880,595</b>
<b>Net position restricted for</b>			
Employees' pension benefits	228,229,905	-	228,229,905
Other postemployment benefits	-	17,613,288	17,613,288
<b>Total net position</b>	<b>\$ 228,229,905</b>	<b>\$ 17,613,288</b>	<b>\$ 245,843,193</b>

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

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Statement of Changes in Fiduciary Net Position**

For the Year Ended December 31, 2018

	Employees' Retirement System	Retiree Medical Benefits Plan	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 782,613	\$ 6,094,446	\$ 6,877,059
Employee	7,991	-	7,991
Total contributions	<u>790,604</u>	<u>6,094,446</u>	<u>6,885,050</u>
Investment earnings (loss):			
Net depreciation in fair value of investments	(21,460,387)	(1,796,946)	(23,257,333)
Income on mutual funds	4,698,525	377,269	5,075,794
Interest and dividends	1,519,865	138,546	1,658,411
Income on real estate pooled separate account	237,930	19,105	257,035
Total investment loss	<u>(15,004,067)</u>	<u>(1,262,026)</u>	<u>(16,266,093)</u>
Investment expense	<u>(863,992)</u>	<u>(68,460)</u>	<u>(932,452)</u>
Net investment earnings (loss)	<u>(15,868,059)</u>	<u>(1,330,486)</u>	<u>(17,198,545)</u>
Total additions (net of investment losses)	<u>(15,077,455)</u>	<u>4,763,960</u>	<u>(10,313,495)</u>
<b>Deductions</b>			
Benefit payments	9,119,760	3,114,845	12,234,605
Administrative expenses	316,553	229,694	546,247
Total deductions	<u>9,436,313</u>	<u>3,344,539</u>	<u>12,780,852</u>
Change in net position	(24,513,768)	1,419,421	(23,094,347)
Net position, beginning of year	<u>228,229,905</u>	<u>17,613,288</u>	<u>245,843,193</u>
Net position, end of year	<u>\$ 203,716,137</u>	<u>\$ 19,032,709</u>	<u>\$ 222,748,846</u>

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

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Statement of Changes in Fiduciary Net Position**

For the Year Ended December 31, 2017

	Employees' Retirement System	Retiree Medical Benefits Plan	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 1,212,943	\$ 5,769,169	\$ 6,982,112
Employee	47,754	-	47,754
Total contributions	<u>1,260,697</u>	<u>5,769,169</u>	<u>7,029,866</u>
Investment earnings:			
Net appreciation in fair value of investments	26,498,511	1,487,329	27,985,840
Income on mutual funds	5,071,046	333,666	5,404,712
Interest and dividends	1,368,093	78,650	1,446,743
Income on real estate pooled separate account	206,687	13,600	220,287
Other	-	187,933	187,933
Total investment income	<u>33,144,337</u>	<u>2,101,178</u>	<u>35,245,515</u>
Investment expense	<u>(827,332)</u>	<u>(48,160)</u>	<u>(875,492)</u>
Net investment earnings	<u>32,317,005</u>	<u>2,053,018</u>	<u>34,370,023</u>
<b>Total additions</b>	<u>33,577,702</u>	<u>7,822,187</u>	<u>41,399,889</u>
<b>Deductions</b>			
Benefit payments	12,292,215	2,942,769	15,234,984
Administrative expenses	313,277	148,818	462,095
<b>Total deductions</b>	<u>12,605,492</u>	<u>3,091,587</u>	<u>15,697,079</u>
<b>Change in net position</b>	20,972,210	4,730,600	25,702,810
Net position, beginning of year	<u>207,257,695</u>	<u>12,882,688</u>	<u>220,140,383</u>
Net position, end of year	<u>\$ 228,229,905</u>	<u>\$ 17,613,288</u>	<u>\$ 245,843,193</u>

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

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## NOTES TO FINANCIAL STATEMENTS

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

### 1. SYSTEM DESCRIPTION

The following brief description of the Kalamazoo County Employees' Retirement System (the "System") is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

The System is a single-employer, defined benefit pension plan, which provides retirement and disability benefits to eligible plan members and beneficiaries. The System was established by the County of Kalamazoo Board of Commissioners and is administered by the Office of Finance of the County of Kalamazoo, Michigan. Accordingly, it is included as a pension trust fund in the County's comprehensive annual financial report. The County of Kalamazoo, Michigan (the "County"), Kalamazoo County Road Commission (the "Road Commission"), and Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") are participating employers of the System and are required to contribute to the System under state of Michigan statutes. Employees of participating employers holding regular positions, either full-time or part-time of 20 hours or more per week, are included by law in the System. Employees of the Sheriff's Deputy Association, Sheriff's Supervisory Association, certain District Court employees, and Judges elected or appointed after March 31, 1997, are excluded from the plan pursuant to past negotiations.

The System is controlled by laws established by the State of Michigan. Any changes to the plan document must be approved by the County of Kalamazoo Board of Commissioners and subsequently implemented by the County of Kalamazoo Office of Finance.

#### Eligibility

An eligible employee becomes a member in the System as of his or her date of permanent employment. Participants become 100% vested for benefits after eight years of service. Terminated members vested in the System are eligible for deferred retirement benefits.

The System's membership consisted of the following:

	December 31, 2018			
	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	341	34	46	421
Terminated employees entitled to but not yet receiving benefits	150	6	61	217
Vested active participants	296	20	86	402
Nonvested participants	341	24	165	530
<b>Total membership</b>	<b>1,128</b>	<b>84</b>	<b>358</b>	<b>1,570</b>

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Notes to Financial Statements**

	December 31, 2017			
	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	333	36	45	414
Terminated employees entitled to but not yet receiving benefits	140	6	60	206
Vested active participants	305	21	85	411
Nonvested participants	341	20	144	505
<b>Total membership</b>	<b>1,119</b>	<b>83</b>	<b>334</b>	<b>1,536</b>

**Benefits Provided**

Regular retirement benefits begin at age 60 with 8 years or more of service for the Authority and the Road Commission employees, as well as the County employees hired before July 1, 2009. Regular retirement benefits begin at age 65 with 8 years or more of service for the County employees hired on or after July 1, 2009. Certain County employees are eligible for normal retirement at age 55 with 25 years of service. Members may retire at age 55 with 8 years of service for a reduced benefit.

Deferred members of the County hired before October 1, 2009, deferred members of the Authority hired before February 5, 2013, and all deferred members of the Road Commission may elect to receive a lump sum benefit at any time before or after reaching the retirement age. All deferred members may receive annuity benefits at the normal or early retirement age.

Benefits are determined at the member's retirement date based on a formula of the member's service credit, final average compensation, and a percentage factor. Service credit is determined by the total number of full or part-time (at least 20 hours per week) years and months of employment. Additional service may be credited for any member with a military leave and for Road Commission employees with disability leave. The final average compensation is the average compensation received during the highest 5 consecutive years of the last 10 years of service or all years of service if the employee has less than 10 years of service. The percentage is determined by the participating employers of the System and ranged from 1.7% to 2.5% in 2018 and 2017. Annual benefits are reduced for early retirement or beneficiary benefits. Employees may choose to receive benefits in monthly payments or as a lump sum payment. Lump sum payments for employees hired before October 1, 2009, are calculated using the annual benefit, expected future lifetime, and a discount rate. Lump sum payments are no longer an option available for County employees hired on or after October 1, 2009, and Authority employees hired on or after February 5, 2013. The discount rate shall be the investment return assumption as adopted by the Retirement Investment Committee to be used in the annual actuarial valuation of the System.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

#### Contributions

*Employer Contributions.* The System'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 contribution rate ranged from 0.00% to 8.11% for the year ended December 31, 2018 and from 0.00% to 9.46% for the year ended December 31, 2017 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 an open period of 10 years.

*Employee Contributions.* No employee contributions are required for participation in the System. The only contributions recognized are those relating to purchased years of service.

## 2. PLAN DESCRIPTION

The following brief description of the Kalamazoo County Retiree Medical Benefits Plan (the "Plan") is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

The Plan is a single-employer, defined benefit OPEB plan, which provides retiree health care benefits to eligible Plan members and beneficiaries. The Plan was established by the County Board of Commissioners and is administered by the Office of Finance of the County of Kalamazoo, Michigan. Accordingly, it is included as a retiree health trust fund in the County's comprehensive annual financial report. The County, the Road Commission, and the Authority are participating employers of the Plan.

#### Eligibility and Benefits Provided

County policy established that retiring employees, who terminate employment after becoming eligible for immediate commencement of retirement benefits from the County, shall be eligible for group health insurance. These benefits are established and can be amended by the County Board of Commissioners. Active participants of the FOP defined contribution plan are eligible under the terms of their collective bargaining agreement. Changes are made through collective bargaining. All other retiring employees reach eligibility based on hire date, years of retirement plan, credited service and age at retirement. A retiree and his/her covered dependents must obtain Medicare Parts A & B at the earliest date eligible. Eligibility conditions for retiree health care benefits are as follows:

#### General County

Members hired on or before 12/31/2008 - Age 55 with 8 years of service; Members hired on or after 1/1/2009 - Age 60 with 8 years of service (until age 65 for members hired on or after 1/1/2010); Members hired on or after 1/1/2012 - not eligible for retiree health care benefits.

#### Mental Health Authority

Members hired on or before 12/31/2009 - Age 55 with 8 years of service; Members hired on or after 1/1/2010 - Age 60 with 8 years of service, benefits are payable until 65; Members hired on or after 1/1/2012 - not eligible for retiree health care benefits.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

### Road Commission

Non-Union members hired on or before 12/31/2012 and Union members hired on or before 12/31/2016 - Age 55 with 25 years of service or age 60 with 8 years of service; Non-Union members hired on or after 1/1/2013 and Union members hired on or after 1/1/2017 - not eligible for retiree health care benefits.

The Plan's membership consisted of the following at December 31, 2018:

	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	440	39	47	526
Active plan members	564	27	93	684
<b>Total membership</b>	<b>1,004</b>	<b>66</b>	<b>140</b>	<b>1,210</b>

The Plan's membership consisted of the following at December 31, 2017:

	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	402	40	46	488
Active plan members	646	34	115	795
<b>Total membership</b>	<b>1,048</b>	<b>74</b>	<b>161</b>	<b>1,283</b>

### Contributions

The Retiree Health Trust currently funds the Plan under the authority defined by the Kalamazoo County Board of Commissioners. Plan members are charged contributions at a set rate per member depending on years of service over eight years and the type of optional coverage elected. The County is currently contributing 50% of the fixed rate determined in the most recent actuarial valuation adjusted for plan design changes made during the year. The Road Commission and the Authority are contributing based on the percentage of payroll determined in the most recent actuarial valuation.

The contribution rates include amortization of the unfunded actuarial accrued liability over a closed period of 24 years for County and the Authority. A closed period of 26 years for Road Commission, and a 29 year closed period for Sheriff (FOP).

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Accounting

The 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 System and Plan.

##### Valuation of Investments and Income Recognition

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate pooled separate accounts are stated primarily at current appraised value, which approximates market. Investments that do not have an established market are reported at estimated fair value.

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.

##### Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of net position at the date of the financial statements and the actuarial present value of accumulated benefits as of the benefit information date, the changes in net position during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

##### Risk and Uncertainties

Contributions and the actuarial present value of accumulated benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as credit, custodial credit, concentrations, foreign currency fluctuations, and interest rates. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in these estimates, assumptions and risks in near-term would be material to the financial statements.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

#### 4. DEPOSITS AND INVESTMENTS

##### Cash and Cash Equivalents

The System does not maintain any checking or other demand/time deposit accounts. The Plan maintains one checking account which has limited FDIC insurance to \$250,000. Additionally, the amounts reported as cash and cash equivalents in the Statements of Fiduciary Net Position are insured by the Securities Investors Protection Act for up to \$500,000 each. The bank balance of these accounts as of December 31, 2018, was \$7,458,078, of which the insured amount was \$1,250,001. The remaining balance of \$6,208,077 is uninsured and uncollateralized. The bank balance of these accounts as of December 31, 2017, was \$11,375,287, of which the insured amount was \$1,250,001. The remaining balance of \$10,125,286 is uninsured and uncollateralized.

##### Investments

The System and Plan are 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 Kalamazoo County Retirement Investment Committee 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 System and Plan.

*Investment Policy.* The System's and Plan's policy in regard to the allocation of invested assets is established and may be amended by the Kalamazoo County Retirement Investment Committee. 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 asset allocation policy as of December 31, 2018 and 2017 is detailed in Notes 7 and 8.

*Rate of Return.* For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of investment expense, was (7.08)% and 17.02%, respectively. For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on OPEB plan investments, net of investment expense, was (11.91)% and 15.58%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

The investments are held in a number of portfolios administered by various investment managers. Following is a summary of the investments at fair value, as determined by quoted market price at December 31:

	2018		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
U.S. government securities	\$ 27,038,855	\$ 2,194,084	\$ 29,232,939
U.S. agency securities	6,429,205	521,702	6,950,907
Corporate obligations	14,618,868	1,186,256	15,805,124
Foreign corporate obligations	2,384,932	193,527	2,578,459
Mortgage-backed funds	2,775,252	225,199	3,000,451
Domestic equity mutual funds/ collective trust funds	97,221,773	7,889,118	105,110,891
Emerging market mutual funds	20,953,087	1,700,251	22,653,338
International equity mutual funds	20,804,239	1,688,172	22,492,411
Real estate investment trust	4,980,014	404,106	5,384,120
Real estate pooled separate account	6,270,460	508,820	6,779,280
<b>Total investments</b>	<b>\$ 203,476,685</b>	<b>\$ 16,511,235</b>	<b>\$ 219,987,920</b>

  

	2017		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
U.S. government securities	\$ 29,656,426	\$ 2,093,934	\$ 31,750,360
U.S. agency securities	5,774,105	407,689	6,181,794
Corporate obligations	15,657,562	1,105,524	16,763,086
Foreign corporate obligations	2,815,126	198,766	3,013,892
Mortgage-backed funds	1,393,894	98,418	1,492,312
Domestic equity mutual funds/ collective trust funds	115,019,507	8,121,116	123,140,623
Emerging market mutual funds	23,488,447	1,658,435	25,146,882
International equity mutual funds	23,116,620	1,632,181	24,748,801
Real estate investment trust	5,531,737	390,576	5,922,313
Real estate pooled separate account	5,895,094	416,232	6,311,326
<b>Total investments</b>	<b>\$ 228,348,518</b>	<b>\$ 16,122,871</b>	<b>\$ 244,471,389</b>

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's and Plan's investment policy limits commercial paper to those at the time of purchase that are within the two highest classifications established by not less than two national rating services as determined by the State Treasurer of Michigan. These also must mature no more than 270 days after date of issue. The System and Plan require the average fixed income portfolio quality rating to be an "A" or better. All bonds owned by the System and Plan should be rated "BBB" or better by Standard & Poor's or an equivalent rating agency as determined by the State Treasurer of Michigan with the following exception: when bond ratings have dropped below "BBB" after purchase, and when the investment manager deems it economically beneficial, the manager may retain ownership.

The investments were rated as follows as of December 31:

	2018		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Standard & Poor's AAA	\$ 9,010,881	\$ 731,193	\$ 9,742,074
Standard & Poor's AA+	300,886	24,416	325,302
Standard & Poor's AA	455,914	36,995	492,909
Standard & Poor's AA-	2,049,053	166,272	2,215,325
Standard & Poor's A+	1,096,831	89,003	1,185,834
Standard & Poor's A	2,288,654	185,714	2,474,368
Standard & Poor's A-	3,770,001	305,919	4,075,920
Standard & Poor's BBB+	3,672,877	298,038	3,970,915
Standard & Poor's BBB	3,003,224	243,698	3,246,922
Standard & Poor's BBB-	144,509	11,726	156,235
Moody's Aaa	27,454,282	2,227,794	29,682,076
Unrated	6,270,460	508,820	6,779,280
Not subject to credit risk	143,959,113	11,681,647	155,640,760
<b>Total investments</b>	<b>\$ 203,476,685</b>	<b>\$ 16,511,235</b>	<b>\$ 219,987,920</b>

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

Notes to Financial Statements

	2017		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Standard & Poor's AAA	\$ 1,538,606	\$ 108,635	\$ 1,647,241
Standard & Poor's AA+	454,856	32,116	486,972
Standard & Poor's AA	117,934	8,327	126,261
Standard & Poor's AA-	1,408,631	99,458	1,508,089
Standard & Poor's A+	1,749,558	123,530	1,873,088
Standard & Poor's A	4,183,236	295,363	4,478,599
Standard & Poor's A-	3,430,833	242,239	3,673,072
Standard & Poor's BBB+	3,623,704	255,857	3,879,561
Standard & Poor's BBB	2,210,287	156,060	2,366,347
Standard & Poor's BBB-	1,026,664	72,489	1,099,153
Moody's Aaa	29,179,218	2,060,240	31,239,458
Moody's Baa2	104,580	7,384	111,964
Unrated	5,895,094	416,232	6,311,326
Not subject to credit risk	173,425,317	12,244,941	185,670,258
Total investments	<u>\$ 228,348,518</u>	<u>\$ 16,122,871</u>	<u>\$ 244,471,389</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 System and 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 System's and 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 System's and 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. As of December 31, 2018 and 2017, the System and Plan had no investments exposed to custodial credit risk.

In addition, the System and Plan will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq.); support the overall investment policies of the System and Plan; understand and accept their designated "role" within the System's and Plan's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines the investment policy statement (as amended). The following criteria are used to evaluate each investment manager's performance: a) achievement of fund objectives as outlined in the investment policy; b) comparisons with other managers, indexes, etc.; c) subjective observations regarding the manager's organization, professionalism, administrative skills, etc.; and d) biannual due diligence meetings.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the System's and Plan's investment in a single issuer. The State generally limits investments in a single issuer to no more than 5% of the total portfolio assets, with the exception of obligations issued, assumed, or guaranteed by the United States. To minimize concentration of credit risk and increase portfolio diversification, the System and Plan places the following additional limits to investments:

- 70% of the portfolio will be invested in common stock with the balance invested in notes, bonds, equity real estate, and short-term securities.
- No more than 5% of portfolio assets at market value will be invested in equity real estate.

The investment portfolio was concentrated as follows:

Investment Type	Issuer	Percentage of Portfolio	
		2018	2017
Collective trust funds	Blackrock Fund	27.9%	30.7%
Emerging market mutual fund	Dimensional	10.3%	10.3%
International equity mutual funds	Dimensional	10.2%	10.1%
Domestic equity mutual fund - small cap	Dimensional	10.0%	9.8%
Domestic equity mutual fund - micro cap	Dimensional	4.9%	5.0%
Domestic equity mutual fund - large cap	Dimensional	4.9%	5.0%

*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 State permits investments in investment grade, dollar denominated obligations issued in the United States by foreign governments, banks, or corporations. Investments in foreign securities are limited to not exceed more than 20% of the System's and Plan's assets. It is the System's and Plan's policy to not purchase foreign investments except those listed in the United States.

Investment (currency in U.S. dollars)	2018		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Foreign corporate obligations	\$ 2,384,932	\$ 193,527	\$ 2,578,459
Emerging market mutual funds	20,953,087	1,700,251	22,653,338
International equity mutual funds	20,804,239	1,688,172	22,492,411
<b>Total</b>	<b>\$ 44,142,258</b>	<b>\$ 3,581,950</b>	<b>\$ 47,724,208</b>

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Notes to Financial Statements**

Investment (currency in U.S. dollars)	2017		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Foreign corporate obligations	\$ 2,815,126	\$ 198,766	\$ 3,013,892
Emerging market mutual funds	23,488,447	1,658,435	25,146,882
International equity mutual funds	23,116,620	1,632,181	24,748,801
<b>Total</b>	<b>\$ 49,420,193</b>	<b>\$ 3,489,382</b>	<b>\$ 52,909,575</b>

*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 System's and Plan's policy provides for its fixed income portfolio to have a weighted-average duration within 0.05 years of the Lehman Brothers Government/Credit Intermediate Index and the Lehman Brothers Government/Credit Long Index for the respective portfolios. Maturities of the investments were as follows as of December 31:

	2018		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Less than 1 year	\$ 672,472	\$ 54,568	\$ 727,040
1 - 5 years	25,747,882	2,089,327	27,837,209
6 - 10 years	3,999,813	324,567	4,324,380
More than 10 years	22,826,943	1,852,306	24,679,249
No maturity	150,229,575	12,190,467	162,420,042
<b>Total investments</b>	<b>\$ 203,476,685</b>	<b>\$ 16,511,235</b>	<b>\$ 219,987,920</b>

	2017		
	Employees' Retirement System	Retiree Medical Benefits Plan	Total
Less than 1 year	\$ 891,993	\$ 62,980	\$ 954,973
1 - 5 years	23,132,180	1,633,280	24,765,460
6 - 10 years	7,487,596	528,673	8,016,269
More than 10 years	23,785,344	1,679,398	25,464,742
No maturity	173,051,405	12,218,540	185,269,945
<b>Total investments</b>	<b>\$ 228,348,518</b>	<b>\$ 16,122,871</b>	<b>\$ 244,471,389</b>

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

*Fair Value Measurement.* The System and 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, as determined by the System's and Plan's investment advisors. 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. These levels are determined by the System's and Plan's investment manager. These are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The System and Plan had the following recurring fair value measurements as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ -	\$ 29,232,939	\$ -	\$ 29,232,939
U.S. agency securities	-	6,950,907	-	6,950,907
Corporate obligations	-	15,805,124	-	15,805,124
Foreign corporate obligations	-	2,578,459	-	2,578,459
Mortgage-backed funds	-	3,000,451	-	3,000,451
Domestic equity mutual funds/ collective trust funds	105,110,891	-	-	105,110,891
Emerging market mutual funds	22,653,338	-	-	22,653,338
International equity mutual funds	22,492,411	-	-	22,492,411
Real estate investment trust	5,384,120	-	-	5,384,120
Real estate pooled separate account	-	6,779,280	-	6,779,280
<b>Total investments</b>	<b>\$ 155,640,760</b>	<b>\$ 64,347,160</b>	<b>\$ -</b>	<b>\$ 219,987,920</b>

The System and Plan had the following recurring fair value measurements as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ -	\$ 31,750,360	\$ -	\$ 31,750,360
U.S. agency securities	-	6,181,794	-	6,181,794
Corporate obligations	-	16,763,086	-	16,763,086
Foreign corporate obligations	-	3,013,892	-	3,013,892
Mortgage-backed funds	-	1,492,312	-	1,492,312
Domestic equity mutual funds/ collective trust funds	123,140,623	-	-	123,140,623
Emerging market mutual funds	25,146,882	-	-	25,146,882
International equity mutual funds	24,748,801	-	-	24,748,801
Real estate investment trust	5,922,313	-	-	5,922,313
Real estate pooled separate account	-	6,311,326	-	6,311,326
<b>Total investments</b>	<b>\$ 178,958,619</b>	<b>\$ 65,512,770</b>	<b>\$ -</b>	<b>\$ 244,471,389</b>

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

### 5. SYSTEM CONTRIBUTIONS

It is the System's policy to fund the actuarial determined pension liability in order for funds to be available when a member retires. The employers are required to contribute a percentage of payroll at an actuarially determined rate. The contribution rate is based on the actuarial assumptions and experiences. Once a group is fully or overfunded, the employer no longer contributes for that group. The employers were required to contribute the following percentages of payroll:

	2018	2017
County:		
Airport	0.00%	0.00%
AS&E/B&G/Parks	0.90%	1.81%
Head start I	0.00%	0.00%
Head start II	0.00%	0.00%
Juvenile court	8.11%	9.46%
Juvenile home	2.65%	2.56%
Non-represented	0.77%	1.59%
Sheriff command	0.00%	0.00%
FOP	0.00%	0.00%
Road Commission - all eligible employees	0.00%	0.00%
Authority:		
Managerial	5.13%	8.61%
Professional	1.82%	3.41%
TOPS	3.24%	4.64%

The sheriff command no longer has active members and therefore no contribution rate can be determined based on a percentage of payroll. The County contributed a fixed dollar amount for the sheriff command of \$48,845 and \$48,984 for the years ended December 31, 2018 and 2017, respectively.

The employers' actual contributions were as follows:

	December 31, 2018		
	Actuarially Determined Contribution	Actual	Percent Contributed
County	\$ 424,057	\$ 424,057	100.00%
Road Commission	-	-	100.00%
Authority	358,556	358,556	100.00%
<b>Total contributions</b>	<b>\$ 782,613</b>	<b>\$ 782,613</b>	

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Notes to Financial Statements**

	December 31, 2017		
	Actuarially Determined Contribution	Actual	Percent Contributed
County	\$ 662,427	\$ 662,427	100.00%
Road Commission	-	-	100.00%
Authority	550,516	550,516	100.00%
<b>Total contributions</b>	<b>\$ 1,212,943</b>	<b>\$ 1,212,943</b>	

System members may purchase credited service for time served in the military. To purchase credited service for military leave, members pay an amount equal to 5% of the member's annual compensation for each year purchased. Members of the County of Kalamazoo Board of Commissioners electing to participate in the plan must contribute 100% of the actuarial cost annually. System members retain the right upon termination to withdraw their contributions plus regular interest, as defined by the System, in lieu of any pension rights they may have. Members may repurchase past service credit for an amount equal to the aggregate amount of contributions the County made at the time of the previous service plus accrued interest from the date of separation to the date of the deposit.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest, upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2018 and 2017 is \$472,469 and \$464,047, respectively.

**6. PLAN CONTRIBUTIONS**

Contributions were as follows at December 31, 2018, based on actuarially determined amounts from the December 31, 2017 actuarial valuation:

	Actuarially Determined Contribution	Actual	Percent Contributed
County	\$ 3,292,072	\$ 5,707,497	173.37%
Road Commission	125,066	211,297	168.95%
Authority	156,571	175,652	112.19%
<b>Total contributions</b>	<b>\$ 3,573,709</b>	<b>\$ 6,094,446</b>	

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

Contributions were as follows at December 31, 2017, based on actuarially determined amounts from the December 31, 2015 actuarial valuation:

	Actuarially Determined Contribution	Actual	Percent Contributed
County	\$ 4,722,640	\$ 5,261,320	111.41%
Road Commission	179,423	297,957	166.06%
Authority	228,973	209,892	91.67%
Total contributions	<u>\$ 5,131,036</u>	<u>\$ 5,769,169</u>	

## 7. NET PENSION ASSET

*Net Pension Asset.* The components of the net pension asset of the System, and the net pension asset as a percentage of covered payroll were as follows:

	December 31, 2018			
	County	Road Commission	Authority	Total
Proportionate share of total pension liability	\$ 140,055,699	\$ 13,607,826	\$ 36,735,609	\$ 190,399,134
Proportionate share of fiduciary net position	<u>149,851,553</u>	<u>14,559,592</u>	<u>39,304,992</u>	<u>203,716,137</u>
Proportionate share of net pension asset	<u>\$ (9,795,854)</u>	<u>\$ (951,766)</u>	<u>\$ (2,569,383)</u>	<u>\$ (13,317,003)</u>
Fiduciary net position as a percentage of total pension liability	106.99%	106.99%	106.99%	106.99%
Covered payroll	<u>\$ 32,319,766</u>	<u>\$ 2,897,844</u>	<u>\$ 12,536,241</u>	<u>\$ 47,753,851</u>
Net pension asset as a percentage of covered payroll	-30.31%	-32.84%	-20.50%	-27.89%

**KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN**

**Notes to Financial Statements**

	December 31, 2017			
	County	Road Commission	Authority	Total
Proportionate share of total pension liability	\$ 130,049,452	\$ 12,186,955	\$ 34,130,529	\$ 176,366,936
Proportionate share of fiduciary net position	<u>168,292,168</u>	<u>15,770,686</u>	<u>44,167,051</u>	<u>228,229,905</u>
Proportionate share of net pension asset	<u>\$ (38,242,716)</u>	<u>\$ (3,583,731)</u>	<u>\$ (10,036,522)</u>	<u>\$ (51,862,969)</u>
Fiduciary net position as a percentage of total pension liability	129.41%	129.41%	129.41%	129.41%
Covered payroll	<u>\$ 31,090,984</u>	<u>\$ 2,700,098</u>	<u>\$ 11,833,751</u>	<u>\$ 45,624,833</u>
Net pension asset as a percentage of covered payroll	-123.00%	-132.73%	-84.81%	-113.67%

*Proportionate Share.* The proportionate shares have been developed on the basis of present value future benefits for each employer. This basis reflects the long-term obligation of each employer to the System. The proportionate shares for 2018 and 2017 were as follows:

	2018	2017
County	73.559%	73.738%
Road Commission	7.147%	6.910%
Authority	<u>19.294%</u>	<u>19.352%</u>
	<u>100.000%</u>	<u>100.000%</u>

*Actuarial Assumptions.* For 2018, the System's net pension asset was measured as of December 31, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. For 2017, the System's net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

	December 31,	
	2018	2017
Inflation	3.50%	3.50%
Salary increases (includes inflation at 3.5%):		
General County	3.50% to 7.50%	3.50% to 7.50%
Road Commission	3.50% to 7.23%	3.50% to 7.23%
Community Mental Health Authority	4.00% to 5.50%	3.50% to 5.50%
Investment rate of return (includes inflation at 2.5%)	7.25%	7.50%

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB.

The actuarial assumptions used in the December 31, 2017 and 2016 valuations were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2013.

*Long-term Expected Rate of Return.* 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 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 System's target asset allocation are summarized in the following tables.

December 31, 2018			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
U.S. small cap (manager 1)	5.00%	5.34%	0.27%
U.S. small cap (manager 2)	10.00%	5.34%	0.53%
International developed equity	10.00%	7.34%	0.73%
U.S. large cap (manager 1)	30.00%	5.04%	1.51%
U.S. large cap (manager 2)	5.00%	5.04%	0.25%
Emerging markets	10.00%	6.84%	0.68%
Domestic fixed income	25.00%	1.34%	0.34%
Real estate (manager 1)	2.50%	3.94%	0.10%
Real estate (manager 2)	2.50%	3.94%	0.10%
	<u>100.00%</u>		
Inflation			3.50%
Risk factor adjustment			-0.76%
Investment rate of return			7.25%

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

Notes to Financial Statements

December 31, 2017			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
U.S. small cap (manager 1)	5.00%	4.50%	0.23%
U.S. small cap (manager 2)	10.00%	4.50%	0.45%
International developed equity	10.00%	4.20%	0.42%
U.S. large cap (manager 1)	30.00%	4.00%	1.20%
U.S. large cap (manager 2)	5.00%	4.00%	0.20%
Emerging markets	10.00%	6.70%	0.67%
Domestic fixed income	25.00%	1.00%	0.25%
Real estate (manager 1)	2.50%	3.20%	0.08%
Real estate (manager 2)	2.50%	3.20%	0.08%
	<u>100.00%</u>		
Inflation			3.50%
Risk factor adjustment			<u>0.42%</u>
Investment rate of return			<u>7.50%</u>

*Discount Rate.* The discount rate used to measure the total pension liability at December 31, 2018 and 2017 was 7.25% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net pension asset of the System, calculated using the discount rate as well as what the System's net pension asset or liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	December 31, 2018		
	One Percent Decrease (6.25%)	Current Discount Rate (7.25%)	One Percent Increase (8.25%)
Net pension (asset) liability	\$ 10,451,932	\$ (13,317,003)	\$ (33,198,945)

  

	December 31, 2017		
	One Percent Decrease (6.50%)	Current Discount Rate (7.50%)	One Percent Increase (8.50%)
Net pension asset	\$ (29,562,103)	\$ (51,862,969)	\$ (70,553,897)

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

### 8. NET OPEB LIABILITY

*Net OPEB Liability.* The components of the net OPEB liability of the Plan, and the net OPEB liability as a percentage of covered payroll were as follows:

	December 31, 2018			
	County	Road Commission	Authority	Total
Proportionate share of total OPEB liability	\$ 52,991,346	\$ 3,166,337	\$ 4,469,050	\$ 60,626,733
Proportionate share of fiduciary net position	14,332,217	1,958,668	2,741,824	19,032,709
Proportionate share of net OPEB liability	<u>\$ 38,659,129</u>	<u>\$ 1,207,669</u>	<u>\$ 1,727,226</u>	<u>\$ 41,594,024</u>
Plan fiduciary net position as a percentage of total OPEB liability	27.05%	61.86%	61.35%	31.39%
Covered payroll	<u>\$ 33,626,921</u>	<u>\$ 1,663,500</u>	<u>\$ 5,362,845</u>	<u>\$ 40,653,266</u>
Net OPEB liability as a percentage of covered payroll	114.96%	72.60%	32.21%	102.31%
	December 31, 2017			
	County	Road Commission	Authority	Total
Proportionate share of total OPEB liability	\$ 55,006,432	\$ 3,404,148	\$ 5,219,553	\$ 63,630,133
Proportionate share of fiduciary net position	12,374,383	1,997,442	3,241,463	17,613,288
Proportionate share of net OPEB liability	<u>\$ 42,632,049</u>	<u>\$ 1,406,706</u>	<u>\$ 1,978,090</u>	<u>\$ 46,016,845</u>
Plan fiduciary net position as a percentage of total OPEB liability	22.50%	58.68%	62.10%	27.68%
Covered payroll	<u>\$ 33,982,319</u>	<u>\$ 1,921,362</u>	<u>\$ 5,779,519</u>	<u>\$ 41,683,200</u>
Net OPEB liability as a percentage of covered payroll	125.45%	73.21%	34.23%	110.40%

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

*Proportionate Share.* The proportionate shares have been developed on the basis of present value future benefits for each employer. This basis reflects the long-term obligation of each employer to the Plan. The proportionate shares were as follows:

	2018	2017
County	92.944%	92.644%
Road Commission	2.903%	3.057%
Authority	4.153%	4.299%
	<u>100.000%</u>	<u>100.000%</u>

*Actuarial Assumptions.* For 2018, the Plan's net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. For 2017, the Plan's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2015.

	December 31,	
	2018	2017
Inflation	3.50%	3.50%
Salary increases (includes inflation at 3.5%):		
General County	3.50% to 7.50%	3.50% to 7.50%
Road Commission	3.50% to 7.23%	3.50% to 7.23%
Community Mental Health Authority	3.50% to 5.50%	3.50% to 5.50%
Investment rate of return (includes inflation at 2.0%)	7.25%	7.50%

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB.

The actuarial assumptions used in the December 31, 2017 and 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2013.

Healthcare cost trend rates trend starting at 9.0% gradually decreasing to 3.5%.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Notes to Financial Statements

*Long-term Expected Rate of Return.* The long-term expected rate of return on OPEB 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 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 Plan's target asset allocation are summarized in the following tables.

December 31, 2018			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
U.S. small cap (manager 1)	5.00%	5.34%	0.27%
U.S. small cap (manager 2)	10.00%	5.34%	0.53%
International developed equity	10.00%	7.34%	0.73%
U.S. large cap (manager 1)	30.00%	5.04%	1.51%
U.S. large cap (manager 2)	5.00%	5.04%	0.25%
Emerging markets	10.00%	6.84%	0.68%
Domestic fixed income	25.00%	1.34%	0.34%
Real estate (manager 1)	2.50%	3.94%	0.10%
Real estate (manager 2)	2.50%	3.94%	0.10%
	<u>100.00%</u>		
Inflation			3.50%
Risk factor adjustment			<u>-0.76%</u>
Investment rate of return			<u>7.25%</u>

December 31, 2017			
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
U.S. small cap (manager 1)	5.00%	4.50%	0.23%
U.S. small cap (manager 2)	10.00%	4.50%	0.45%
International developed equity	10.00%	4.20%	0.42%
U.S. large cap (manager 1)	30.00%	4.00%	1.20%
U.S. large cap (manager 2)	5.00%	4.00%	0.20%
Emerging markets	10.00%	6.70%	0.67%
Domestic fixed income	25.00%	1.00%	0.25%
Real estate (manager 1)	2.50%	3.20%	0.08%
Real estate (manager 2)	2.50%	3.20%	0.08%
	<u>100.00%</u>		
Inflation			3.50%
Risk factor adjustment			<u>0.42%</u>
Investment rate of return			<u>7.50%</u>

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Notes to Financial Statements

*Discount Rate.* The discount rate used to measure the total OPEB liability at December 31, 2018 and 2017 was 7.25% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that the County will contribute at a rate equal to the greater of the pay-as-you-go cost or 50% of the actuarially determined employer contribution, plus an additional \$300,000 per year. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	December 31, 2018		
	One Percent Decrease (6.25%)	Current Discount Rate (7.25%)	One Percent Increase (8.25%)
Net OPEB liability	\$ 48,380,388	\$ 41,594,024	\$ 35,872,425

	December 31, 2017		
	One Percent Decrease (6.50%)	Current Discount Rate (7.50%)	One Percent Increase (8.50%)
Net OPEB liability	\$ 53,295,595	\$ 46,016,845	\$ 39,901,361

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate Assumption.* The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (8.0% decreasing to 2.5%) or 1% higher (10.0% decreasing to 4.5%) than the current healthcare cost trend rates:

	December 31, 2018		
	One Percent Decrease (8.0% decreasing to 2.5%)	Current Healthcare Cost Trend Rate (9.0% decreasing to 3.5%)	One Percent Increase (10.0% decreasing to 4.5%)
Net OPEB liability	\$ 35,449,171	\$ 41,594,024	\$ 48,821,897

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

■ Notes to Financial Statements

	December 31, 2017		
	One Percent Decrease (8.0% decreasing to 2.5%)	Current Healthcare Cost Trend Rate (9.0% decreasing to 3.5%)	One Percent Increase (10.0% decreasing to 4.5%)
Net OPEB liability	\$ 38,851,462	\$ 46,016,845	\$ 54,539,773



## REQUIRED SUPPLEMENTARY INFORMATION

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Required Supplementary Information Single-employer Defined Benefit Pension Plan

### Schedule of Changes in the System's Net Pension Asset and Related Ratios

	Years Ended December 31,				
	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service cost	\$ 3,629,274	\$ 3,339,511	\$ 3,449,662	\$ 3,502,608	\$ 3,584,907
Interest on total pension liability	11,540,803	11,895,347	12,251,457	12,514,402	13,019,964
Difference between expected and actual experience	-	(2,986,458)	(949,324)	1,388,645	1,248,982
Assumption changes	-	2,164,854	-	-	5,298,105
Benefit payments and refunds	(11,408,049)	(9,187,843)	(10,252,492)	(12,292,215)	(9,119,760)
<b>Net change in total pension liability</b>	<b>3,762,028</b>	<b>5,225,411</b>	<b>4,499,303</b>	<b>5,113,440</b>	<b>14,032,198</b>
Total pension liability, beginning of year	157,766,754	161,528,782	166,754,193	171,253,496	176,366,936
Total pension liability, end of year	161,528,782	166,754,193	171,253,496	176,366,936	190,399,134
<b>Plan fiduciary net position</b>					
Employer contributions	1,985,340	1,320,723	1,464,540	1,212,943	782,613
Employee contributions	-	4,500	-	47,754	7,991
Pension plan net investment income (loss)	13,528,275	(3,399,365)	23,448,619	32,317,005	(15,868,059)
Benefit payments and refunds	(11,408,049)	(9,187,843)	(10,252,492)	(12,292,215)	(9,119,760)
Pension plan administrative expense	(252,272)	(345,891)	(303,990)	(313,277)	(316,553)
<b>Net change in plan fiduciary net position</b>	<b>3,853,294</b>	<b>(11,607,876)</b>	<b>14,356,677</b>	<b>20,972,210</b>	<b>(24,513,768)</b>
Plan fiduciary net position, beginning of year	200,655,600	204,508,894	192,901,018	207,257,695	228,229,905
Plan fiduciary net position, end of year	204,508,894	192,901,018	207,257,695	228,229,905	203,716,137
<b>Net pension asset</b>	<b>\$ (42,980,112)</b>	<b>\$ (26,146,825)</b>	<b>\$ (36,004,199)</b>	<b>\$ (51,862,969)</b>	<b>\$ (13,317,003)</b>
Plan fiduciary net position as a percentage of total pension liability	126.61%	115.68%	121.02%	129.41%	106.99%
<b>Covered payroll</b>	<b>\$ 41,180,449</b>	<b>\$ 41,152,336</b>	<b>\$ 43,438,087</b>	<b>\$ 45,624,833</b>	<b>\$ 47,753,851</b>
Net pension asset as a percentage of covered payroll	-104.37%	-63.54%	-82.89%	-113.67%	-27.89%

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

The current year assumption changes resulted from a change in the discount rate from 7.50% to 7.25%.

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Required Supplementary Information

### Single-employer Defined Benefit Pension Plan

#### Schedule of the Net Pension Asset

Total System						
Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Fiduciary Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Asset as Percentage of Covered Payroll
2018	\$ 190,399,134	\$ 203,716,137	\$ (13,317,003)	106.99%	\$ 47,753,851	-27.89%
2017	176,366,936	228,229,905	(51,862,969)	129.41%	45,624,833	-113.67%
2016	171,253,496	207,257,695	(36,004,199)	121.02%	43,438,087	-82.89%
2015	166,754,193	192,901,018	(26,146,825)	115.68%	41,152,336	-63.54%
2014	161,528,782	204,508,894	(42,980,112)	126.61%	41,180,449	-104.37%

County						
Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Fiduciary Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Asset as Percentage of Covered Payroll
2018	\$ 140,055,699	\$ 149,851,553	\$ (9,795,854)	106.99%	\$ 32,319,766	-30.31%
2017	130,049,452	168,292,168	(38,242,716)	129.41%	31,090,984	-123.00%
2016	127,779,083	154,643,257	(26,864,174)	121.02%	30,382,053	-88.42%
2015	125,235,731	144,872,519	(19,636,788)	115.68%	29,100,398	-67.48%
2014	105,940,267	134,129,203	(28,188,936)	126.61%	28,124,717	-100.23%

Road Commission						
Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Fiduciary Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Asset as Percentage of Covered Payroll
2018	\$ 13,607,826	\$ 14,559,592	\$ (951,766)	106.99%	\$ 2,897,844	-32.84%
2017	12,186,955	15,770,686	(3,583,731)	129.41%	2,700,098	-132.73%
2016	12,093,922	14,636,538	(2,542,616)	121.02%	2,403,555	-105.79%
2015	11,962,951	13,838,725	(1,875,774)	115.68%	2,042,092	-91.86%
2014	-	-	-	0.00%	2,222,722	0.00%

Authority						
Year Ended December 31,	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Fiduciary Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Asset as Percentage of Covered Payroll
2018	\$ 36,735,609	\$ 39,304,992	\$ (2,569,383)	106.99%	\$ 12,536,241	-20.50%
2017	34,130,529	44,167,051	(10,036,522)	129.41%	11,833,751	-84.81%
2016	31,380,491	37,977,900	(6,597,409)	121.02%	10,652,479	-61.93%
2015	29,555,511	34,189,774	(4,634,263)	115.68%	10,009,846	-46.30%
2014	55,588,515	70,379,691	(14,791,176)	126.61%	10,833,010	-136.54%

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

# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Required Supplementary Information

### Single-employer Defined Benefit Pension Plan

#### Schedule of Contributions

Total System					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 782,613	\$ 782,613	\$ -	\$ 47,753,851	1.64%
2017	1,212,943	1,212,943	-	45,624,833	2.66%
2016	1,464,540	1,464,540	-	43,438,087	3.37%
2015	1,320,723	1,320,723	-	41,152,336	3.21%
2014	1,985,340	1,985,340	-	41,180,449	4.82%

County					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 424,057	\$ 424,057	\$ -	\$ 32,319,766	1.31%
2017	662,427	662,427	-	31,090,984	2.13%
2016	949,476	949,476	-	30,382,053	3.13%
2015	843,226	843,226	-	29,100,398	2.90%
2014	1,302,099	1,302,099	-	28,124,717	4.63%

Road Commission					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ -	\$ -	\$ -	\$ 2,897,844	0.00%
2017	-	-	-	2,700,098	0.00%
2016	-	-	-	2,403,555	0.00%
2015	-	-	-	2,042,092	0.00%
2014	-	-	-	2,222,722	0.00%

Authority					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 358,556	\$ 358,556	\$ -	\$ 12,536,241	2.86%
2017	550,516	550,516	-	11,833,751	4.65%
2016	515,064	515,064	-	10,652,479	4.84%
2015	477,497	477,497	-	10,009,846	4.77%
2014	683,241	683,241	-	10,833,010	6.31%

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# KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Required Supplementary Information Single-employer Defined Benefit Pension Plan

### Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, open period
Remaining amortization period	10 years
Asset valuation method	Market value with 5-year smoothing
Inflation	3.5%
Salary increases (including inflation):	
County	3.50% to 7.50%
Road commission	3.50% to 7.23%
Authority	4.00% to 5.50%
Investment rate of return	7.5% net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2014 valuation pursuant to an experience study of the period 2009 - 2013.
Mortality	RP-2000 mortality combined healthy tables, projected 20 years with U.S. Projection Scale BB.

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

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KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

**Required Supplementary Information**  
Single-employer Defined Benefit Pension Plan

Schedule of Investment Returns

Year Ended December 31,	Annual Return <sup>(1)</sup>
2018	-7.08%
2017	17.02%
2016	13.21%
2015	-1.71%
2014	6.87%

<sup>(1)</sup> 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.

## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Required Supplementary Information Single-employer Defined Benefit OPEB Plan

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

	Years Ended December 31,	
	2017	2018
Total OPEB liability		
Service cost	\$ 560,834	\$ 530,375
Interest on total OPEB liability	4,485,283	4,675,342
Change of benefit terms	1,003,146	-
Difference between expected and actual experience	(471,099)	(10,978,729)
Assumption changes	-	5,884,457
Benefit payments, including refunds of employee contributions	(2,942,769)	(3,114,845)
Net change in total OPEB liability	2,635,395	(3,003,400)
Total OPEB liability, beginning of year	60,994,738	63,630,133
Total OPEB liability, end of year	63,630,133	60,626,733
Plan fiduciary net position		
Employer contributions	5,769,169	6,094,446
OPEB plan net investment income (loss)	2,053,018	(1,330,486)
Benefit payments and refunds	(2,942,769)	(3,114,845)
OPEB plan administrative expense	(148,818)	(229,694)
Net change in plan fiduciary net position	4,730,600	1,419,421
Plan fiduciary net position, beginning of year	12,882,688	17,613,288
Plan fiduciary net position, end of year	17,613,288	19,032,709
Net OPEB liability	\$ 46,016,845	\$ 41,594,024
Plan fiduciary net position as a percentage of total OPEB liability	27.68%	31.39%
Covered payroll	\$ 41,683,200	\$ 40,653,266
Net OPEB liability as a percentage of covered payroll	110.40%	102.31%

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

The current year assumption changes resulted from a change in the discount rate from 7.50% to 7.25%.

# KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Required Supplementary Information Single-employer Defined Benefit OPEB Plan

### Schedule of the Net OPEB Liability

Total Plan						
Year Ended December 31,	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2018	\$ 60,626,733	\$ 19,032,709	\$ 41,594,024	31.39%	\$ 40,653,266	102.31%
2017	63,630,133	17,613,288	46,016,845	27.68%	41,683,200	110.40%

  

County						
Year Ended December 31,	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2018	\$ 52,991,346	\$ 14,332,217	\$ 38,659,129	27.05%	\$ 33,626,921	114.96%
2017	55,006,432	12,374,383	42,632,049	22.50%	33,982,319	125.45%

  

Road Commission						
Year Ended December 31,	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2018	\$ 3,166,337	\$ 1,958,668	\$ 1,207,669	61.86%	\$ 1,663,500	72.60%
2017	3,404,148	1,997,442	1,406,706	58.68%	1,921,362	73.21%

  

Authority						
Year Ended December 31,	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered Payroll
2018	\$ 4,469,050	\$ 2,741,824	\$ 1,727,226	61.35%	\$ 5,362,845	32.21%
2017	5,219,553	3,241,463	1,978,090	62.10%	5,779,519	34.23%

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

# KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Required Supplementary Information

Single-employer Defined Benefit OPEB Plan

### Schedule of Contributions

Total Plan					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 3,573,709	\$ 6,094,446	\$ (2,520,737)	\$ 40,653,266	14.99%
2017	5,131,036	5,769,169	(638,133)	41,683,200	13.84%

  

County					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 3,292,072	\$ 5,707,497	\$ (2,415,425)	\$ 33,626,921	16.97%
2017	4,722,640	5,261,320	(538,680)	33,982,319	15.48%

  

Road Commission					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 125,066	\$ 211,297	\$ (86,231)	\$ 1,663,500	12.70%
2017	179,423	297,957	(118,534)	1,921,362	15.51%

  

Authority					
Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2018	\$ 156,571	\$ 175,652	\$ (19,081)	\$ 5,362,845	3.28%
2017	228,973	209,892	19,081	5,779,519	3.63%

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## KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

### Required Supplementary Information

#### Single-employer Defined Benefit OPEB Plan

#### Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	
County	Level dollar for General, closed period; Level percentage for FOP, closed period
Road commission	Level dollar, closed period
Authority	Level dollar, closed period
Remaining amortization period	
County	24 years for General; 29 years for FOP
Road commission	26 years
Authority	24 years
Asset valuation method	Market value assets
Inflation	3.5%
Salary increases (including inflation):	
County	3.50% to 7.50%
Road commission	3.50% to 7.23%
Authority	3.50% to 5.50%
Investment rate of return	7.5% net of OPEB plan expenses
Retirement age	Age-based or service-based table of rates that are specific to the type of eligibility conditions.
Mortality	RP-2000 mortality combined healthy tables, projected 20 years with U.S. Projection Scale BB.
Healthcare cost trend rates	Initial trend of 9.00% gradually decreasing to 3.50%
Excise tax	No load was applied in connection with the "Cadillac" tax
Aging factors	Based on an internal actuary study using several pricing manuals from National Health Care Consultant Groups and incorporating analysis and data from a Society of Actuaries survey regarding aging practices used in health care valuations.

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

concluded

# KALAMAZOO COUNTY RETIREE MEDICAL BENEFITS PLAN

## Required Supplementary Information Single-employer Defined Benefit OPEB Plan

### Schedule of Investment Returns

Year Ended December 31,	Annual Return <sup>(1)</sup>
2018	-11.91%
2017	15.58%

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

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

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## INTERNAL CONTROL AND COMPLIANCE

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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*

April 18, 2019

Kalamazoo County Board of Commissioners  
Kalamazoo County Employees' Retirement System  
Kalamazoo County Retiree Medical Benefits Plan  
Kalamazoo, 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 *Kalamazoo County Employees' Retirement System* (the "System", a pension trust fund of the County of Kalamazoo, Michigan), and the *Kalamazoo County Retiree Medical Benefits Plan* (the "Plan", an other postemployment (OPEB) trust fund of the County of Kalamazoo, Michigan), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated April 18, 2019.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's and 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's and Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's and 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 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 System's and 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 System's and 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 Johnson LLC*