



# Kalamazoo County Employees' Retirement System

Financial Statements and  
Required Supplementary Information  
Years Ended December 31, 2013 and 2012

# **Kalamazoo County Employees' Retirement System**

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Financial Statements and Required Supplementary Information  
Years Ended December 31, 2013 and 2012

# Kalamazoo County Employees' Retirement System

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## Independent Auditor's Report

Board of Commissioners  
Kalamazoo County Employees' Retirement System  
Kalamazoo, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements, of the Kalamazoo County Employees' Retirement System (the System), a pension trust fund of the County of Kalamazoo, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System'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.

#### *Auditor's Responsibility*

Our responsibility is to express opinions 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 of 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 auditor's 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 the 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Kalamazoo County Employees' Retirement System as of December 31, 2013 and 2012, and the changes in net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information on pages 6 through 9 and 24 through 27, respectively 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information on pages 28 and 29 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report May 14, 2014 on our consideration of the Kalamazoo County Employees' Retirement System'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 result 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 Kalamazoo County Employees' Retirement System's internal control over financial reporting and compliance.

*BDO USA, LLP*

Kalamazoo, Michigan

May 14, 2014

# Kalamazoo County Employees' Retirement System

## Management's Discussion and Analysis

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This section of the Kalamazoo County Employees' Retirement System's (the System's) annual financial statements presents a discussion and analysis of the financial performance of the System for the year ended December 31, 2013, with selected comparative information for the year ended December 31, 2012. 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*

- The System's assets exceeded liabilities at the close of fiscal year 2013 by \$200,655,600 (reported as net position).
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2012, the date of the most recent actuarial valuation, the present value of the actuarial accrued liability was \$156,742,545 and the actuarial value of the System's assets was \$165,552,993. As a result, the System's liability is overfunded by \$8,810,448. The actuarial assumptions used in calculating the liability have not changed significantly from prior years.
- Additions for the year were \$37,738,390 which is comprised of contributions of \$3,290,557 and net investment income of \$34,447,833.
- Deductions decreased 3% from the prior year from \$9,646,158 to \$9,396,534. Most of this decrease represented a decrease of retirement benefits paid based on members eligible for retirement.

### *Using the Financial Statements*

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

The *Statements of Plan Net Position* present all of the System's assets and liabilities, with the differences between the two reported as net position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The *Statements of Changes in Plan Net Position* present how the System's net position changed during the most recent year. These two financial statements should be reviewed along with the Schedule of Funding Progress and the Schedule of Employer Contributions (see Note 7) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

# Kalamazoo County Employees' Retirement System

## Management's Discussion and Analysis

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### Statements of Plan Net Position

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

<i>December 31,</i>	<i>2013</i>	<i>2012</i>	<i>Total Percent Change</i>
<b>Assets:</b>			
Cash and money market funds	\$ 5,031,599	\$ 4,580,455	10%
Investments	197,117,086	171,633,903	15%
Receivables	687,769	468,239	47%
<b>Total Assets</b>	<b>202,836,454</b>	<b>176,682,597</b>	<b>15%</b>
<b>Liabilities:</b>			
Benefits payable	822,863	1,183,638	-30%
Accounts payable	1,357,991	3,185,215	-57%
<b>Total Liabilities</b>	<b>2,180,854</b>	<b>4,368,853</b>	<b>-50%</b>
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$200,655,600</b>	<b>\$ 172,313,744</b>	<b>16%</b>

The System's total assets as of December 31, 2013, were \$202,836,454 and were mostly comprised of investments. Total assets increased \$26,153,857 or 15% from the prior year primarily due to an increase in investment returns.

Total liabilities as of December 31, 2013, were \$2,180,854 and were comprised of benefits payable and accounts payable. Total liabilities decreased \$2,187,999 or 50% from the prior year primarily due to changes in the liability for pending purchases of investments.

The System's assets exceeded its liabilities at the close of fiscal year 2013 by \$200,655,600. Total net position held in trust for pension benefits increased from the prior year primarily due to net investment income.



# Kalamazoo County Employees' Retirement System

## Management's Discussion and Analysis

### Statements of Changes in Plan Net Position

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

<i>Year ended December 31,</i>	<i>2013</i>	<i>2012</i>	<i>Total Percent Change</i>
<b>Additions:</b>			
Contributions	\$ 3,290,557	\$ 3,033,872	8%
Net investment income	34,447,833	23,011,389	50%
<b>Total Additions</b>	<b>37,738,390</b>	<b>26,045,261</b>	<b>45%</b>
<b>Deductions:</b>			
Benefits	8,985,147	9,234,308	-3%
Administrative expense	411,387	411,850	0%
<b>Total Deductions</b>	<b>9,396,534</b>	<b>9,646,158</b>	<b>-3%</b>
<b>Net Increase</b>	<b>28,341,856</b>	<b>16,399,103</b>	<b>-73%</b>
<b>Net Position Held in Trust for Pension Benefits,</b>			
beginning of year	172,313,744	155,914,641	11%
<b>Net Position Held in Trust for Pension Benefits,</b>			
end of year	<b>\$ 200,655,600</b>	<b>\$ 172,313,744</b>	<b>16%</b>

#### *Additions to Plan Net Position*

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Revenue sources include employer contributions, member contributions, and earnings on investments. Contributions and net investment income for fiscal year 2013 totaled \$37,738,390. This represents an increase of \$11,693,129 from the prior year.

Contributions increased from the previous year by \$256,685, due to an increase in required contribution rates as a result of changes in actuarial assumptions. Net investment income increased \$11,436,444, from the prior year due to investment income from improvement in market conditions.

#### *Deductions from Net Position*

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, refunds of contributions and interest to former members, and the cost of administering the System. Total deductions for the fiscal year ended December 31, 2013, were \$9,396,534, a decrease of \$249,624 from the previous year.

# Kalamazoo County Employees' Retirement System

## Management's Discussion and Analysis

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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 receive monthly payments or lump sum distributions. Pension benefits decreased by \$249,161 or 3% in 2013 as compared to 2012.

### *The System as a Whole*

Management believes, and actuarial studies concur, that the System is in a solid financial position to meet its current obligations. We believe that the current financial position will continue to improve due to a prudent investment program, cost controls, and strategic planning.

### *Requests for Financial Information*

This financial report is designed to provide the Retirement Investment Committee, our membership, citizens, taxpayers, investment managers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the funds under its stewardship. If you have questions about this report or need additional information, contact:

Office of Finance  
Kalamazoo County Employees' Retirement System  
201 West Kalamazoo Avenue  
Kalamazoo, Michigan 49007

# Kalamazoo County Employees' Retirement System

## Statements of Plan Net Position

<i>December 31,</i>	<i>2013</i>	<i>2012</i>
<b>Assets:</b>		
Cash	\$ 5,031,599	\$ 4,580,455
Investments, at fair value:		
Mutual funds	85,276,822	74,095,343
Collective trust funds	60,624,995	50,305,325
U.S. government securities	23,814,098	23,770,264
Corporate bonds	14,523,931	11,147,525
Pooled mortgages	7,494,006	7,614,042
Real estate pooled separate account	5,383,234	4,701,404
<b>Total cash and investments</b>	<b>202,148,685</b>	<b>176,214,358</b>
<b>Receivables:</b>		
Interest and dividends	544,817	347,732
Employer contributions	142,952	120,507
<b>Total receivables</b>	<b>687,769</b>	<b>468,239</b>
<b>Total Assets</b>	<b>202,836,454</b>	<b>176,682,597</b>
<b>Liabilities:</b>		
Benefits payable	822,863	1,183,638
Accounts payable	1,357,991	3,185,215
<b>Total Liabilities</b>	<b>2,180,854</b>	<b>4,368,853</b>
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$ 200,655,600</b>	<b>\$ 172,313,744</b>

*See accompanying independent auditor's report  
and notes to financial statements.*

# Kalamazoo County Employees' Retirement System

## Statements of Changes in Plan Net Position

<i>Year ended December 31,</i>	<i>2013</i>	<i>2012</i>
<b>Additions:</b>		
Contributions:		
Employer	\$ 3,277,576	\$ 2,977,544
Plan members	12,981	56,328
Total contributions	3,290,557	3,033,872
Investment income:		
Net appreciation in fair value of investments	29,540,976	18,227,462
Interest and dividends	1,354,836	1,323,855
Income on mutual funds	3,877,346	3,732,486
Income on pooled separate account	334,991	339,699
Total investment income	35,108,149	23,623,502
Less investment expense	660,316	612,113
Net investment income	34,447,833	23,011,389
<b>Total Additions</b>	<b>37,738,390</b>	<b>26,045,261</b>
<b>Deductions:</b>		
Benefits	8,985,147	9,234,308
Administrative expenses	411,387	411,850
<b>Total Deductions</b>	<b>9,396,534</b>	<b>9,646,158</b>
Net Increase	28,341,856	16,399,103
Net Position Held in Trust for Pension Benefits, beginning of year	172,313,744	155,914,641
Net Position Held in Trust for Pension Benefits, end of year	\$ 200,655,600	\$ 172,313,744

*See accompanying independent auditor's report  
and notes to financial statements.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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### 1. Description of the System

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 multiple-employer, defined benefit pension plan, which provides retirement and disability benefits to eligible plan members and beneficiaries. The System was established by the Kalamazoo County Board of Commissioners and is administered by the Kalamazoo County Retirement Investment Committee. The Kalamazoo County (the County), Kalamazoo 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 twenty 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 Kalamazoo County Board of Commissioners and subsequently implemented by the Retirement Investment Committee and the County Administrator/Controller.

#### *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.

As of December 31, 2012, the date of the latest actuarial valuation, the System's membership consisted of the following:

	<i>Road</i>			<i>Total</i>
	<i>County</i>	<i>Commission</i>	<i>Authority</i>	
Retirees and beneficiaries				
currently receiving benefits	265	41	22	328
Terminated members				
not yet receiving benefits	111	7	38	156
Current active members:				
Vested	378	33	73	484
Nonvested	338	11	143	492
<b>Total Plan Membership</b>	<b>1,092</b>	<b>92</b>	<b>276</b>	<b>1,460</b>

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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### *Benefits*

Regular retirement benefits begin at age 60 with eight 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 eight years or more of service for the County employees hired on or after July 1, 2009. Certain employees are eligible for normal retirement at age 55 with 25 years of service. Members may retire at age 55 with eight 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 time (at least 20 hours per week) years and months of employment. Additional service may be credited for Road Commission employees with military or disability leave. The final average compensation is the average compensation received during the highest five 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 2.0% to 2.5% in 2013 and 2012. Annual benefits are reduced for early retirement or beneficiary benefits. Employees may choose to receive benefits in monthly payments or as lump sum payments. 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 CMH 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.

## **2. Summary of Significant Accounting Policies**

The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Plan member contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### *Investments*

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. 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.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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### *Use of Estimates*

The preparation of the System's 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.

### *Risks and Uncertainties*

The System's 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 interest rate, market, and credit. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in the value of investments, it is possible that changes in these estimates, assumptions and risks in near term would be material to the financial statements.

### *New Accounting Pronouncements*

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Government Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, established standard for financial reporting that outline the basic framework for separately issued pension system financial reports and specifies the required approach to measuring the liability of employer and certain non-employer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the System, this standard will be adopted for the year ending December 31, 2014.

## **3. Deposits and Investments**

### *Deposits*

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The System's investment policy complies with the state statutes and has no additional limitations on deposits.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. The System does not have a policy for mitigating custodial credit risk over deposits. At December 31, 2013, the System had a deposit balance of \$5,031,599 that was uninsured.

### *Investments*

The investments of the System are designed to comply with requirements of the state of Michigan, which has numerous investment limitations depending on the type of investment.

The most significant state limitations as they impact the System are as follows:

1. Investments in stock are limited to 70% of the System's assets and investments in the stock of any one corporation are limited to 5% of the System's assets;
2. Equity investments in real estate are limited to 5% of the System's assets;
3. Investment in state and local government obligations are limited to 5% of the System's assets; and
4. Investments in foreign securities are limited to 20% of the System's assets.

### *Interest Rate Risk*

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The fixed income portfolio is structured to provide stability and cash flow to the System. To minimize interest rate risk, the weighted average duration of fixed income investments are to be within .05 years of the respective Barclays Capital US Aggregate Bond Index benchmark. In addition, the System limits maturity in commercial paper to no more than 270 days after issue.

*See accompanying independent auditor's report.*



# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

As of December 31, 2013, the System had the following investments and maturities exposed to interest rate risk:

<i>Investment Type</i>	<i>Investment Maturities - in Years</i>				
	<i>Fair Value</i>	<i>Less Than 1</i>	<i>1-5</i>	<i>6-10</i>	<i>More Than 10</i>
<b>Debt Securities:</b>					
Asset Backed Corporate Bonds	\$ 2,438,330	\$ -	\$ 2,438,330	\$ -	\$ -
Corporate Bonds	12,085,601	-	4,858,140	4,238,254	2,989,207
Collateralized Mortgage Obligation Securities (CMO)	71,789	-	-	71,789	-
Federal Home Loan Mortgage Corporation (FHLMC)	1,541,481	-	-	-	1,541,481
Federal National Mortgage Association (FNMA)	5,880,736	-	28,932	-	5,851,804
Government Issue FICO Strip Securities	1,733,684	-	1,353,950	379,734	-
U.S. Treasury Bonds	22,080,414	2,553,406	2,475,250	4,630,918	12,420,840
<b>Total</b>	<b>\$ 45,832,035</b>	<b>\$2,553,406</b>	<b>\$ 11,154,602</b>	<b>\$9,320,695</b>	<b>\$ 22,803,332</b>
<b>Other Investments:</b>					
U.S. Micro Cap Equity Mutual Fund	10,123,484				
Equity Index Collective Trust Fund	60,624,995				
Mutual International Small Cap Fund	20,505,828				
Mutual Emerging Markets Fund	19,638,769				
U.S. Large Cap Equity Mutual Fund	10,152,661				
U.S. Small Cap Equity Mutual Fund	20,532,558				
Real Estate Pooled Separate Account	5,383,234				
REIT Index Inst	4,323,522				
<b>Total Investments</b>	<b>\$ 197,117,086</b>				

### ***Credit Risk***

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The System limits investments in commercial paper rated at the time of purchase within the two highest ratings issued by nationally recognized statistical rating organizations. In addition, investments in investment companies are limited to those that have been in operation for at least five years and have assets under management of more than \$500,000,000. The System also requires the average fixed income portfolio quality rating to be an "A" or better. Bonds owned by the System are limited to those with a "BBB" or better rating by Standard & Poor's or an equivalent rating agency at the time of purchase.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

As of December 31, 2013, the System's investments had the following credit ratings:

<i>Debt Investment Rating</i>	<i>Fair Value</i>	<i>S&amp;P Rating</i>					<i>Unrated</i>
		<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>		
Asset Backed Corporate Bonds	\$ 2,438,330	\$ 2,246,551	\$ -	\$ -	\$ -	\$ -	\$ 191,779
Corporate Bonds	12,085,601	111,089	1,846,057	6,031,211	4,097,244	-	-
Collateralized Mortgage Obligation							
Securities (CMO)	71,789	-	71,789	-	-	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	1,541,481	-	1,541,481	-	-	-	-
Federal National Mortgage Association (FNMA)	5,880,736	-	5,880,736	-	-	-	-
Government Issue FICO Strip Securities	1,733,684	-	-	-	-	-	1,733,684
U.S. Treasury Bonds	22,080,414	-	-	-	-	-	22,080,414
<b>Totals by Rating</b>	<b>\$ 45,832,035</b>	<b>\$ 2,357,640</b>	<b>\$ 9,340,063</b>	<b>\$ 6,031,211</b>	<b>\$ 4,097,244</b>	<b>\$ -</b>	<b>\$ 24,005,877</b>

<i>Fund Ratings</i>	<i>Morningstar Rating</i>		
	<i>★★</i>	<i>★★★</i>	<i>★★★★</i>
U.S. Micro Cap Equity Mutual Fund	\$ 10,123,484	\$ -	\$ -
Equity Index Collective Trust Fund	60,624,995	-	60,624,995
International Small Cap Mutual Fund	20,505,828	-	20,505,828
Emerging Markets Mutual Fund	19,638,769	-	19,638,769
U.S. Large Cap Equity Mutual Fund	10,152,661	-	10,152,661
U.S. Small Cap Equity Mutual Fund	20,532,558	-	20,532,558
REIT Index Inst	4,323,523	-	4,323,523
<b>Totals by Rating</b>	<b>\$ 145,901,818</b>	<b>\$ -</b>	<b>\$ 44,494,850</b>

REIT Index Inst is a Private REIT, investing 100% in real estate and does not have a public rating. It was affirmed with a rating of NAIC-1 (National Association of Insurance Commissioners) in August of 2012 which is equivalent to the various A level ratings of Moody's, S&P and Fitch.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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### *Concentration of Credit Risk*

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the System'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 places the following additional limits to investments:

- Investments in common stock are limited to 65% of the total portfolio.
- Investments in equity real estate are limited to 5% of the total portfolio.
- 100% of investments may be comprised of U.S. Government and Agency issues, but only up to 50% may be invested in Government Agencies.
- Investments in issues in utilities, oils, industrials, and direct placements are limited to 30% of the portfolio.

As of December 31, 2013, no single holding within this portfolio represented more than 5% of the total portfolio.

### *Custodial Credit Risk*

This portfolio will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to those permitted by Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq) and the following: a) Common Stock; b) real estate investments in equity positions or convertible to equity positions; c) issues by the United States Treasury and Agencies; d) corporate bonds; e) commercial paper; f) derivatives that derive values from external source (interest rate benchmark, commodity benchmark, underlying mortgage pools, etc.); and g) mutual funds consisting of the allowable investments.

In addition, the System 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; understand and accept their designated "role" within the System's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines of this document and/or any additional written instructions that amend this Investment Policy Statement. 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.

As of December 31, 2013, the System had no investments exposed to custodial credit risk.

### *Foreign Currency Risk*

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a 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 assets. It is the System's policy to not purchase foreign investments except those listed in the United States.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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As of December 31, 2013, the System invested approximately \$20,506,000 in an international small cap value mutual fund that exposes the portfolio to foreign currency risk. The fund invests in equity securities of small, non-U.S. companies that the Advisor determines to be value stocks at the time of purchase. The portfolio intends to purchase the stocks of small companies within developed markets. Under normal market conditions, the portfolio intends to invest its assets in value stocks of small companies, organized or having a majority of their assets in or deriving a majority of their operating income in non-U.S. countries. Currently, no more than 25% of the portfolio's assets is invested in such companies in any one country.

The System also has invested approximately \$19,369,000 in an emerging markets mutual fund that is also exposed to foreign currency risk. The fund invests in emerging market equity securities that are deemed to be large cap stocks at the time of purchase, and have characteristics of emerging markets as determined by the fund. Currently, no more than 16% of the portfolio's assets is invested in such companies in any one country.

### 4. 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 County no longer contributes for that group. The employers were required to contribute the following percentages of payroll:

<i>Year ended December 31,</i>	<i>2013</i>	<i>2012</i>
Kalamazoo County:		
Airport	0.00%	2.06%
District Court	3.65%	9.39%
Head Start I	0.00%	0.00%
Head Start II	0.00%	0.00%
Juvenile Court	12.14%	10.50%
Juvenile Home	1.31%	1.16%
AS&E/B&G/Parks	11.63%	13.02%
Non-Represented	8.02%	19.95%
Sheriff Command	0.00%	0.00%
Kalamazoo Community Mental Health and Substance Abuse Services:		
Managerial	14.99%	10.58%
Professional	4.91%	5.42%
TOPS	8.66%	7.02%
Road Commission - All eligible employees	0.00%	0.00%

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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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 Sherriff Command of \$40,592 and \$34,163 for the years ended December 31, 2013 and 2012, respectively.

The employers' actual contributions were as follows:

<i>Year ended December 31, 2013</i>	<i>Annual Required Contributions</i>	<i>Actual</i>	<i>Percent Contributed</i>
Kalamazoo County	\$ 2,355,734	\$ 2,355,735	100.0%
Kalamazoo County Road Commission	-	-	100.0%
Kalamazoo Community Mental Health and Substance Abuse Services	921,842	921,842	100.0%
<b>Total Contributions</b>	<b>\$ 3,277,576</b>	<b>\$ 3,277,577</b>	<b>100.0%</b>

Plan 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 Board of Commissioners electing to participate in the plan must contribute 100% of the actuarial cost annually. Plan 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, 2013, is approximately \$809,000.

### 5. Compliance with State Statutes

Effective October 16, 2000, a state of Michigan law was enacted limiting a retirement plan's investment in common stocks to 70% of a plan's assets at market value.

At December 31, 2013, the System's investment in common stocks was 70.2% of plan assets at market value, thereby exceeding the limit allowed by law. On November 17, 2013, the Retirement Investment Committee met and directed staff to review the asset holdings as of November 30, 2013. The System was brought into compliance in December, 2013. However, the market appreciation during December, 2013, caused the System to exceed the 70% limit at December 31, 2013. The System was brought into compliance prior to report issuance.

At December 31, 2012, the System's investment in common stock was 69.3% of plan assets at market value, thereby not exceeding the limited allowed by law.

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

### 6. System Reserves

The Plan's required reserve at the reporting date is the retiree reserve. The reserve is used to pay the pensions payable for the retired members of the Plan. The retiree reserves are based on the corresponding actuarial valuation as follows:

	<i>December 31, 2012</i>			<i>December 31, 2011</i>		
	<i>Actuarial Retiree Reserve</i>	<i>Retiree Reserve</i>	<i>Over (Under) Funded</i>	<i>Actuarial Retiree Reserve</i>	<i>Retiree Reserve</i>	<i>Over (Under) Funded</i>
Kalamazoo County	\$ 40,139,540	\$ 30,590,897	\$ (9,548,643)	\$ 35,496,967	\$ 29,113,667	\$ (6,383,300)
Kalamazoo County Road Commission	6,361,964	4,755,381	(1,606,583)	5,639,984	5,606,795	(33,189)
Kalamazoo Community Mental Health and Substance Abuse Services	4,165,054	3,133,614	(1,031,440)	3,552,058	2,895,652	(656,406)
<b>Total Reserves</b>	<b>\$ 50,666,558</b>	<b>\$ 38,479,892</b>	<b>\$ (12,186,666)</b>	<b>\$ 44,689,009</b>	<b>\$ 37,616,114</b>	<b>\$ (7,072,895)</b>

The reserve was adjusted to be fully funded upon receipt of the valuation report in July of the subsequent year.

### 7. Contributions and Funded Status

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI), immediately following these notes present multi-year trend information pertaining to whether the actuarial valuation of the plan's assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
12/31/2012	\$ 165,552,993	\$ 156,742,545	\$ (8,810,448)	105.6%	\$ 43,902,576	-20.1%

*See accompanying independent auditor's report.*

# Kalamazoo County Employees' Retirement System

## Notes to the Basic Financial Statements

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The information presented in the required supplementary schedules was determined as a part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	December 31, 2012
Actuarial cost method:	Individual entry age normal cost
Amortization method:	Level percent of payroll, open period (closed period for the Road Commission)
Remaining amortization period:	All liabilities - 10 years
Asset valuation method:	Market value with five-year smoothing
Actuarial assumptions:	
Investment rate of return:*	7.5%
Projected salary increases:*	3.5% to 9.5% (General County) 3.5% to 5.5% (Community Mental Health Services) 3.5% to 8.2% (Road Commission)
Cost-of-living adjustments:	None

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*\*Includes inflation at 3.5%*

### 8. Subsequent Events

The System's management has evaluated the period from January 1, 2014, through May 14, 2014, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material recognizable subsequent events were identified.

*See accompanying independent auditor's report.*

## Required Supplementary Information

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# Kalamazoo County Employees' Retirement System

## Schedule of Funding Progress by Participating Employers

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
<b>Kalamazoo County Employees' Retirement System</b>						
12/31/2003	<sup>1,2,4</sup> \$ 131,974,673	\$ 115,888,097	\$ (16,086,576)	113.9%	\$ 38,550,262	-41.7%
12/31/2004	<sup>2,4</sup> \$ 141,301,975	\$ 120,989,478	\$ (20,312,497)	116.8%	\$ 39,502,958	-51.4%
12/31/2005	\$ 147,297,289	\$ 119,481,751	\$ (27,815,538)	123.3%	\$ 38,347,962	-72.5%
12/31/2006	<sup>1,2</sup> \$ 160,357,123	\$ 124,338,265	\$ (36,018,858)	129.0%	\$ 39,487,222	-91.2%
12/31/2007	\$ 157,216,140	\$ 114,641,285	\$ (42,574,855)	137.1%	\$ 39,319,527	-108.3%
12/31/2008	\$ 160,225,830	\$ 124,785,459	\$ (35,440,371)	128.4%	\$ 41,295,573	-85.8%
12/31/2009	<sup>1,2</sup> \$ 162,506,375	\$ 135,708,332	\$ (26,798,043)	119.7%	\$ 43,217,605	-63.5%
12/31/2010	<sup>2</sup> \$ 165,881,227	\$ 143,249,838	\$ (22,631,389)	115.8%	\$ 43,864,919	-51.6%
12/31/2011	\$ 165,652,477	\$ 150,896,195	\$ (14,756,282)	109.8%	\$ 44,092,439	-33.5%
12/31/2012	\$ 165,552,993	\$ 156,742,545	\$ (8,810,448)	105.6%	\$ 43,902,576	-20.1%

### Kalamazoo County

12/31/2003	<sup>1,4</sup> \$ 99,498,957	\$ 87,719,880	\$ (11,779,077)	113.4%	\$ 28,267,177	-41.7%
12/31/2004	<sup>2</sup> \$ 106,222,382	\$ 93,324,847	\$ (12,897,535)	113.8%	\$ 29,589,370	-43.6%
12/31/2005	\$ 110,000,754	\$ 91,148,307	\$ (18,852,447)	120.7%	\$ 27,857,193	-67.7%
12/31/2006	<sup>1,2</sup> \$ 119,374,129	\$ 94,622,759	\$ (24,751,370)	126.2%	\$ 28,167,697	-87.9%
12/31/2007	\$ 117,536,641	\$ 87,542,664	\$ (29,993,977)	134.3%	\$ 27,705,539	-108.3%
12/31/2008	<sup>1</sup> \$ 120,174,139	\$ 95,531,315	\$ (24,642,824)	125.8%	\$ 29,132,398	-84.6%
12/31/2009	<sup>1,2</sup> \$ 121,700,436	\$ 104,800,076	\$ (16,900,360)	116.1%	\$ 30,836,049	-54.8%
12/31/2010	<sup>2</sup> \$ 124,116,801	\$ 110,074,819	\$ (14,041,982)	112.8%	\$ 31,293,381	-44.9%
12/31/2011	\$ 123,903,818	\$ 116,401,624	\$ (7,502,194)	106.4%	\$ 31,342,499	-23.9%
12/31/2012	\$ 123,521,513	\$ 119,986,546	\$ (3,534,967)	102.9%	\$ 30,782,123	-11.5%

<sup>1</sup> Plan amended

<sup>2</sup> Assumptions and/or methods revised.

<sup>3</sup> Anticipates continued granting of future retiree increases.

<sup>4</sup> Eliminated anticipation of continued granting of future retiree increases.

# Kalamazoo County Employees' Retirement System

## Schedule of Funding Progress by Participating Employers

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
<b>Kalamazoo Community Mental Health and Substance Abuse Services</b>						
12/31/2003	<sup>1,2,4</sup> \$16,153,856	\$13,782,313	\$(2,371,543)	117.2%	\$ 7,395,382	-32.1%
12/31/2004	<sup>2</sup> \$17,322,964	\$13,800,127	\$(3,522,837)	125.5%	\$ 6,950,369	-50.7%
12/31/2005	\$18,590,919	\$14,106,806	\$(4,484,113)	131.8%	\$ 7,407,981	-60.5%
12/31/2006	<sup>2</sup> \$21,000,047	\$15,485,864	\$(5,514,183)	135.6%	\$ 8,246,246	-66.9%
12/31/2007	\$21,371,724	\$14,384,271	\$(6,987,453)	148.6%	\$ 8,551,466	-81.7%
12/31/2008	\$21,662,970	\$16,201,152	\$(5,461,818)	133.7%	\$ 9,049,076	-60.4%
12/31/2009	<sup>1,2</sup> \$22,528,833	\$17,509,842	\$(5,018,991)	128.7%	\$ 9,539,315	-52.6%
12/31/2010	<sup>2</sup> \$23,417,047	\$19,921,921	\$(3,495,126)	117.5%	\$ 9,824,208	-35.6%
12/31/2011	\$23,896,594	\$20,920,180	\$(2,976,414)	114.2%	\$10,050,825	-29.6%
12/31/2012	\$24,845,013	\$23,305,700	\$(1,539,313)	106.6%	\$10,740,610	-14.3%
<b>Kalamazoo County Road Commission</b>						
12/31/2003	<sup>1</sup> \$16,321,860	\$14,385,904	\$(1,935,956)	113.5%	\$ 2,887,703	-67.0%
12/31/2004	<sup>2,4</sup> \$17,756,629	\$13,864,504	\$(3,892,125)	128.1%	\$ 2,963,219	-131.3%
12/31/2005	\$18,705,616	\$14,226,638	\$(4,478,978)	131.5%	\$ 3,082,788	-145.3%
12/31/2006	<sup>2</sup> \$19,982,947	\$14,229,642	\$(5,753,305)	140.4%	\$ 3,073,779	-187.2%
12/31/2007	\$18,307,775	\$12,714,350	\$(5,593,425)	144.0%	\$ 3,062,522	-182.6%
12/31/2008	\$18,388,721	\$13,052,992	\$(5,335,729)	140.9%	\$ 3,114,099	-171.3%
12/31/2009	<sup>2</sup> \$18,277,106	\$13,398,414	\$(4,878,692)	136.4%	\$ 2,842,241	-171.6%
12/31/2010	<sup>2</sup> \$18,347,379	\$13,253,098	\$(5,094,281)	138.4%	\$ 2,747,330	-185.4%
12/31/2011	\$17,852,065	\$13,574,391	\$(4,277,674)	131.5%	\$ 2,699,115	-158.5%
12/31/2012	\$17,186,467	\$13,450,299	\$(3,736,168)	127.8%	\$ 2,379,843	-157.0%

<sup>1</sup> Plan amended

<sup>2</sup> Assumptions and/or methods revised.

<sup>3</sup> Anticipates continued granting of future retiree increases.

<sup>4</sup> Eliminated anticipation of continued granting of future retiree increases.

# Kalamazoo County Employees' Retirement System

## Schedule of Participating Employers' Contributions

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<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
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**Kalamazoo County  
Employees' Retirement System**

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2003	\$ 3,952,316	93.3%
2004	\$ 2,375,325	100.0%
2005	\$ 2,713,771	99.7%
2006	\$ 1,675,122	100.2%
2007	\$ 1,120,987	100.0%
2008	\$ 921,434	100.0%
2009	\$ 1,330,215	100.5%
2010	\$ 1,935,171	101.0%
2011	\$ 2,425,242	100.0%
2012	\$ 3,033,872	100.0%

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**Kalamazoo County**

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2003	\$ 2,684,452	99.8%
2004	\$ 1,607,758	99.5%
2005	\$ 1,730,540	99.9%
2006	\$ 1,317,801	100.3%
2007	\$ 858,753	100.0%
2008	\$ 696,029	100.0%
2009	\$ 928,340	100.7%
2010	\$ 1,522,167	101.3%
2011	\$ 1,784,970	100.0%
2012	\$ 2,294,174	100.0%

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# Kalamazoo County Employees' Retirement System

## Schedule of Participating Employers' Contributions

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<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
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### Kalamazoo Community Mental Health and Substance Abuse Services

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2003	\$ 1,075,219	100.0%
2004	\$ 534,336	100.0%
2005	\$ 397,661	100.0%
2006	\$ 357,321	100.0%
2007	\$ 262,234	100.0%
2008	\$ 225,405	100.0%
2009	\$ 401,875	100.0%
2010	\$ 413,004	105.3%
2011	\$ 640,272	100.0%
2012	\$ 739,698	100.0%

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### Kalamazoo County Road Commission

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2003	\$ 192,645	103.1%
2004	\$ 233,231	101.4%
2005	\$ 45,570	88.9%
2006	\$ -	N/A
2007	\$ -	N/A
2008	\$ -	N/A
2009	\$ -	N/A
2010	\$ -	N/A
2011	\$ -	N/A
2012	\$ -	N/A

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## Supplementary Information

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**Kalamazoo County Employees' Retirement System**  
**Schedule of Changes in Reserves of Net Position Held in Trust**

	<i>General County</i>		
	<i>Contributions</i>		
	<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>
<b>Balance, January 1, 2012</b>	\$ 759,885	\$ 86,112,168	\$ 29,113,667
Additions (deductions):			
Actuarial adjustment	-	(6,383,300)	6,383,300
Investment income, less investment and administrative expenses of \$1,023,963	54,547	14,509,811	2,200,273
Contributions	56,328	2,237,846	-
<b>Total additions</b>	<b>110,875</b>	<b>10,364,357</b>	<b>8,583,573</b>
Deductions -			
Benefits	-	-	(7,219,957)
Transfers between reserves	(113,614)	-	113,614
<b>Net change in reserves</b>	<b>(2,739)</b>	<b>10,364,357</b>	<b>1,477,230</b>
<b>Balance, December 31, 2012</b>	<b>757,146</b>	<b>96,476,525</b>	<b>30,590,897</b>
Additions (deductions):			
Actuarial adjustment	-	(9,548,642)	9,548,642
Investment income, less investment and administrative expenses of \$1,071,703	43,777	22,649,395	2,515,156
Contributions	12,981	2,355,734	-
<b>Total additions</b>	<b>56,758</b>	<b>15,456,487</b>	<b>12,063,798</b>
Deductions -			
Benefits	-	-	(6,790,560)
Transfers between reserves	(186,429)	-	186,429
<b>Net change in reserves</b>	<b>(129,671)</b>	<b>15,456,487</b>	<b>5,459,667</b>
<b>Balance, December 31, 2013</b>	<b>\$ 627,475</b>	<b>\$ 111,933,012</b>	<b>\$ 36,050,564</b>

**Kalamazoo County Employees' Retirement System**  
**Schedule of Changes in Reserves of Net Position Held in Trust**

<u>Road Commission</u>			<u>Community Mental Health Services</u>			
<u>Contributions</u>			<u>Contributions</u>			
<u>Member</u>	<u>Employer</u>	<u>Current Retirees</u>	<u>Member</u>	<u>Employer</u>	<u>Current Retirees</u>	<u>Total</u>
\$ 330,640	\$ 13,194,960	\$ 5,606,795	\$ 36,774	\$ 17,864,099	\$ 2,895,652	\$ 155,914,640
-	(33,189)	33,189	-	(656,406)	656,406	-
17,302	2,327,349	342,034	22	2,922,814	225,388	22,599,540
-	-	-	-	739,698	-	3,033,872
17,302	2,294,160	375,223	22	3,006,106	881,794	25,633,412
-	-	(1,334,026)	-	-	(680,325)	(9,234,308)
(107,389)	-	107,389	(36,493)	-	36,493	-
(90,087)	2,294,160	(851,414)	(36,471)	3,006,106	237,962	16,399,104
240,553	15,489,120	4,755,381	303	20,870,205	3,133,614	172,313,744
-	(1,606,583)	1,606,583	-	(1,031,440)	1,031,440	-
12,640	3,532,719	391,630	16	4,652,403	238,710	34,036,446
-	-	-	-	921,842	-	3,290,557
12,640	1,926,136	1,998,213	16	4,542,805	1,270,150	37,327,003
-	-	(1,212,249)	-	-	(982,338)	(8,985,147)
(72,021)	-	72,021	(90)	-	90	-
(59,381)	1,926,136	857,985	(74)	4,542,805	287,902	28,341,856
\$ 181,172	\$ 17,415,256	\$ 5,613,366	\$ 229	\$ 25,413,010	\$ 3,421,516	\$ 200,655,600



**Independent Auditor's 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***

Board of Commissioners  
Kalamazoo County Employees' Retirement System  
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) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated May 14, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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 Kalamazoo County Employees' Retirement System's financial statements are free of 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 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.

*BDO USA, LLP*

Kalamazoo, Michigan

May 14, 2014