



Kalamazoo County Employees' Retirement System

Financial Statements and
Required Supplementary Information
Years Ended December 31, 2014 and 2013

Kalamazoo County Employees' Retirement System

Financial Statements and Required Supplementary Information
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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, 2014 and 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.



Opinion

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 as of December 31, 2014 and 2013, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information on pages 6 through 9 and 24 through 28, 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 an opinion 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 29 and 30 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 dated June 26, 2015 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 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 Kalamazoo County Employees' Retirement System's internal control over financial reporting and compliance.

BDO USA, LLP

Kalamazoo, Michigan

June 26, 2015

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis

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, 2014, with selected comparative information for the year ended December 31, 2013. 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 2014 by \$204,508,894 (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, 2013, the date of the most recent actuarial valuation, the present value of the actuarial accrued liability was \$161,528,782 and the actuarial value of the System's net position was \$204,508,894. As a result, the System's liability is overfunded by \$42,980,112. The actuarial assumptions used in calculating the liability have not changed significantly from prior years.
- Additions for the year were \$15,513,615 which is comprised of contributions of \$1,985,340 and net investment income of \$13,528,275.
- Deductions increased 24% from the prior year from \$9,396,534 to \$11,660,321. Most of this increase represented an increase 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 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 revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statements of Fiduciary 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 Fiduciary 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 Net Pension Asset (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

Statements of Fiduciary Net Position

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

<i>December 31,</i>	2014	2013	2012	Total Percent Change 2014 with 2013
Assets:				
Cash and money market funds	\$ 5,328,769	\$ 5,031,599	\$ 4,580,455	6%
Investments	203,595,311	197,117,086	171,633,903	3%
Receivables	421,919	687,769	468,239	-39%
Total Assets	209,345,999	202,836,454	176,682,597	3%
Liabilities:				
Benefits payable	569,563	822,863	1,183,638	-31%
Accounts payable	4,267,542	1,357,991	3,185,215	214%
Total Liabilities	4,837,105	2,180,854	4,368,853	122%
Net Position Restricted for Pensions	\$204,508,894	\$200,655,600	\$172,313,744	2%

The System's total assets as of December 31, 2014, were \$209,345,999 and were mostly comprised of investments. Total assets increased \$6,509,545 or 3% from the prior year primarily due to an increase in investment returns.

Total liabilities as of December 31, 2014, were \$4,837,105 and were comprised of benefits payable and accounts payable. Total liabilities increased \$2,656,251 or 122% 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 2014 by \$204,508,894. 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 Fiduciary 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>	2014	2013	2012	Total Percent Change 2014 with 2013
Additions:				
Contributions	\$ 1,985,340	\$ 3,290,557	\$ 3,033,872	-40%
Net investment income	13,528,275	34,447,833	23,011,389	-61%
Total Additions	15,513,615	37,738,390	26,045,261	-59%
Deductions:				
Benefits	11,408,049	8,985,147	9,234,308	27%
Administrative expense	252,272	411,387	411,850	-39%
Total Deductions	11,660,321	9,396,534	9,646,158	24%
Net Increase	3,853,294	28,341,856	16,399,103	-86%
Net Position Restricted for				
Pensions, beginning of year	200,655,600	172,313,744	155,914,641	16%
Net Position Restricted for				
Pensions, end of year	\$ 204,508,894	\$ 200,655,600	\$ 172,313,744	2%

Additions to Fiduciary 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 2014 totaled \$15,513,615. This represents a decrease of \$22,224,775 from the prior year.

Contributions decreased from the previous year by \$1,305,217, due to a decrease in required contribution rates as a result of changes in actuarial assumptions. Net investment income decreased \$20,919,558 from the prior year due to a deterioration in market conditions.

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis

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, 2014, were \$11,660,321, an increase of \$2,263,787 from the previous 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 receive monthly payments or lump sum distributions. Pension benefit payments increased by \$2,422,902 or 27% in 2014 as compared to 2013.

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 Fiduciary Net Position

<i>December 31,</i>	2014	2013
Assets:		
Cash and money market funds	\$ 5,328,769	\$ 5,031,599
Receivables:		
Interest and dividends	268,750	544,817
Employer contributions	91,345	142,952
Sale of investments	56,503	-
Other	5,321	-
Investments, at fair value:		
Mutual funds	83,843,666	85,276,822
Collective trust funds	62,905,654	60,624,995
U.S. government securities	26,348,670	23,814,098
Corporate bonds	18,431,238	14,523,931
Pooled mortgages	6,039,621	7,494,006
Real estate pooled separate account	6,026,462	5,383,234
Total Assets	209,345,999	202,836,454
Liabilities:		
Benefits payable	569,563	822,863
Accounts payable	4,267,542	1,357,991
Total Liabilities	4,837,105	2,180,854
Net Position Restricted for Pensions	\$ 204,508,894	\$ 200,655,600

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

Kalamazoo County Employees' Retirement System

Statements of Changes in Fiduciary Net Position

<i>Year ended December 31,</i>	2014	2013
Additions to Net Position:		
Contributions:		
Employer	\$ 1,985,340	\$ 3,277,576
Plan members	-	12,981
Total contributions	1,985,340	3,290,557
Investment income:		
Net appreciation in fair value of investments	9,117,303	29,540,976
Income on mutual funds	3,545,420	3,877,346
Interest and dividends	1,372,236	1,354,836
Income on pooled separate account	286,399	334,991
Total investment income	14,321,358	35,108,149
Less investment expense	793,083	660,316
Net investment income	13,528,275	34,447,833
Total Additions to Net Position	15,513,615	37,738,390
Deductions from Net Position:		
Benefit payments, including refunds of employee contributions	11,408,049	8,985,147
Administrative expenses	252,272	411,387
Total Deductions from Net Position	11,660,321	9,396,534
Net Increase in Net Position	3,853,294	28,341,856
Net Position Restricted for Pensions, beginning of year	200,655,600	172,313,744
Net Position Restricted for Pensions, end of year	\$ 204,508,894	\$ 200,655,600

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

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

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 single-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, 2013, the date of the latest actuarial valuation, the System's membership consisted of the following:

	<i>Road</i>			
	<i>County</i>	<i>Commission</i>	<i>Authority</i>	<i>Total</i>
Retirees and beneficiaries currently receiving benefits	284	42	26	352
Terminated members not yet receiving benefits	141	8	40	189
Current active members:				
Vested	324	29	83	436
Nonvested	326	13	131	470
Total Plan Membership	1,075	92	280	1,447

See accompanying independent auditor's report.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

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 2014 and 2013. 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

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 Pronouncement

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 has been adopted for the year ended December 31, 2014.

Subsequent Events

The System's management has evaluated the period from January 1, 2015, through June 26, 2015, 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.

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

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, 2014, the System had a deposit balance of \$5,328,769 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 investment policy adopted by the Board is in accordance with state law and has authorized investments according to Michigan Public Act 314 of 1965, as amended. The most significant requirements 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, 2014, 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>
Debt Securities:					
Asset Backed Corporate Bonds	\$ 1,253,808	\$ -	\$ 1,062,794	\$ -	\$ 191,014
Corporate Bonds	17,177,430	45,373	6,275,388	6,036,518	4,820,151
Collateralized Mortgage Obligation Securities (CMO)	65,832	-	65,832	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	833,710	-	-	-	833,710
Federal National Mortgage Association (FNMA)	5,140,079	-	17,046	-	5,123,033
Government Issue FICO Strip Securities	1,963,519	-	1,800,656	-	162,863
U.S. Treasury Bonds	24,385,151	-	11,196,864	1,036,938	12,151,349
Total	\$ 50,819,529	\$ 45,373	\$ 20,418,580	\$ 7,073,456	\$ 23,282,120
Other Investments:					
Equity Index Collective Trust Fund	62,905,654				
U.S. Small Cap Equity Mutual Fund	20,540,560				
Mutual International Small Cap Fund	18,150,559				
Mutual Emerging Markets Fund	17,991,580				
U.S. Micro Cap Equity Mutual Fund	10,419,346				
U.S. Large Cap Equity Mutual Fund	10,354,610				
REIT Index Inst	6,387,011				
Real Estate Pooled Separate Account	6,026,462				
Total Investments	\$ 203,595,311				

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, 2014, the System's investments had the following credit ratings:

<i>Debt Investment Rating</i>	<i>Fair Value</i>	<i>S&P Rating</i>					<i>Unrated</i>
		<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>		
Asset Backed Corporate Bonds	\$ 1,253,808	\$ 1,184,692	\$ -	\$ -	\$ -	\$ 69,116	
Corporate Bonds	17,177,430	106,707	2,944,115	8,597,513	5,529,095	-	
Collateralized Mortgage Obligation Securities (CMO)	65,832	-	65,832	-	-	-	
Federal Home Loan Mortgage Corporation (FHLMC)	833,710	-	833,710	-	-	-	
Federal National Mortgage Association (FNMA)	5,140,079	-	5,140,079	-	-	-	
Government Issue FICO Strip Securities	1,963,519	-	-	-	-	1,963,519	
U.S. Treasury Bonds	24,385,151	-	-	-	-	24,385,151	
Totals by Rating	\$ 50,819,529	\$ 1,291,399	\$ 8,983,736	\$ 8,597,513	\$ 5,529,095	\$ 26,417,786	

<i>Fund Ratings</i>	<i>Morningstar Rating</i>		
	<i>★★</i>	<i>★★★</i>	<i>★★★★</i>
U.S. Small Cap Equity Mutual Fund	\$ 20,540,560	\$ -	\$ 20,540,560
International Small Cap Mutual Fund	18,150,559	-	18,150,559
U.S. Micro Cap Equity Mutual Fund	10,419,346	-	10,419,346
U.S. Large Cap Equity Mutual Fund	10,354,610	-	10,354,610
REIT Index Inst	6,387,011	-	6,387,011
Equity Index Collective Trust Fund	62,905,654	62,905,654	-
Emerging Markets Mutual Fund	17,991,580	17,991,580	-
Totals by Rating	\$ 146,749,320	\$ 80,897,234	\$ 65,852,086

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

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, 2014, 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, 2014, 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

As of December 31, 2014, the System invested approximately \$18,151,000 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 are invested in such companies in any one country.

The System also has invested approximately \$17,992,000 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 are 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>	2014	2013
Kalamazoo County:		
Airport	0.00%	0.00%
AS&E/B&G/Parks	6.01%	11.63%
District Court	2.50%	3.65%
Head Start I	0.00%	0.00%
Head Start II	0.00%	0.00%
Juvenile Court	10.09%	12.14%
Juvenile Home	0.00%	1.31%
Non-Represented	4.42%	8.02%
Sheriff Command	0.00%	0.00%
Kalamazoo Community Mental Health and Substance Abuse Services:		
Managerial	11.68%	14.99%
Professional	3.68%	4.91%
TOPS	6.80%	8.66%
Road Commission - All eligible employees	0.00%	0.00%

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 \$37,485 and \$40,592 for the years ended December 31, 2014 and 2013, respectively.

See accompanying independent auditor's report.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

The employers' actual contributions were as follows:

<i>Year ended December 31, 2014</i>	Annual Required Contributions	Actual	Percent Contributed
Kalamazoo County	\$ 1,302,099	\$ 1,302,099	100.0%
Kalamazoo County Road Commission	-	-	100.0%
Kalamazoo Community Mental Health and Substance Abuse Services	683,241	683,241	100.0%
Total Contributions	\$ 1,985,340	\$ 1,985,340	100.0%

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, 2014, is approximately \$563,000.

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, 2014, the System's investment in common stock was 68.5% of plan assets at market value, thereby not exceeding the limit allowed by law.

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.

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, 2013</i>			<i>December 31, 2012</i>		
	Actuarial Retiree Reserve	Retiree Reserve	Over (Under) Funded	Actuarial Retiree Reserve	Retiree Reserve	Over (Under) Funded
Kalamazoo County	\$ 45,940,865	\$ 36,050,565	\$ (9,890,300)	\$ 40,139,540	\$ 30,590,897	\$ (9,548,643)
Kalamazoo County Road Commission	6,805,079	5,613,366	(1,191,713)	6,361,964	4,755,381	(1,606,583)
Kalamazoo Community Mental Health and Substance Abuse Services	5,121,293	3,421,516	(1,699,777)	4,165,054	3,133,614	(1,031,440)
Total Reserves	\$ 57,867,237	\$ 45,085,447	\$ (12,781,790)	\$ 50,666,558	\$ 38,479,892	\$ (12,186,666)

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

7. Net Pension Asset

Net Pension Asset of the System

The components of the net pension asset of the system at December 31, 2014 were as follows:

Total pension liability	\$ (161,528,782)
Plan fiduciary net position	204,508,894
Net Pension Asset	\$ 42,980,112
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	126.61%

See accompanying independent auditor's report.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

Actuarial Assumptions

The total pension asset was determined by an actuarial valuation as of December 31, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
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)
Investment rate of return*	7.50%

**Includes inflation at 3.5%*

Mortality rates were based on the 1994 Group Annuity Mortality Table.

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 the pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocations 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 of December 31, 2014 (see the discussion of the System's investment policy) are summarized in the following table:

<i>Asset Class</i>	<i>Long-Term Expected Real Rate of Return*</i>
U.S. Small Cap (Manager 1)	6.00%
U.S. Small Cap (Manager 2)	6.00%
International Developed Equity	5.00%
U.S. Large Cap (Manager 1)	5.00%
U.S. Large Cap (Manager 2)	5.00%
Emerging Markets	6.75%
Domestic Fixed Income	0.75%
Real Estate (Manager 1)	3.75%
Real Estate (Manager 2)	3.75%

** Real rate of return is based on investment manager inflation assumption of 2.25%*

See accompanying independent auditor's report.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

Discount Rate

A single discount rate of 7.50% was used to measure the total pension asset. This single discount rate was based on the expected rate of return on System investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. There was not a change in assumptions from prior year. Therefore, the long-term expected rate of return on System investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following table presents the System's net pension asset, calculated using a single discount rate of 7.50%, as well as what the System's net pension asset would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher:

	1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Net Pension Asset	\$22,376,328	\$42,980,112	\$60,258,847

See accompanying independent auditor's report.

Required Supplementary Information

Kalamazoo County Employees' Retirement System

Required Supplementary Information Schedule of Changes in the Employers' Net Pension Asset and Related Ratios

<i>Fiscal year ended December 31, 2014</i>	<i>Total Plan</i>
Total Pension Liability	
Service cost	\$ 3,629,274
Interest on the total pension liability	11,540,803
Benefit payments and refunds	(11,408,049)
Net Change in Total Pension Liability	3,762,028
Total Pension Liability, beginning	157,766,754
Total Pension Liability, ending (a)	\$ 161,528,782
Plan Fiduciary Net Position	
Contributions - employer	\$ 1,985,340
Pension plan net investment income	13,528,275
Benefit payments and refunds	(11,408,049)
Pension plan administrative expenses	(252,272)
Net Change in Plan Fiduciary Net Position	3,853,294
Plan Fiduciary Net Position, beginning	200,655,600
Plan Fiduciary Net Position, ending (b)	\$ 204,508,894
Net Pension Asset - Ending (a) - (b)	\$ 42,980,112
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	126.61%
Covered Employee Payroll*	\$ 41,180,449
Net Pension Asset as a Percentage of Covered Payroll	104.37%

** Reflects payroll as of the actuarial valuation date one year prior to the measurement date.*

Ultimately, 10 fiscal years will be displayed (which may be built prospectively starting from 2014).

Kalamazoo County Employees' Retirement System

Required Supplementary Information Schedule of Contributions

Total System					
<i>Fiscal year ended December 31,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 1,985,340	\$ 1,985,340	\$ -	\$ 41,180,449	4.82%
County					
<i>Fiscal year ended December 31,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 1,302,099	\$ 1,302,099	\$ -	\$ 28,124,717	4.63%
Authority					
<i>Fiscal year ended December 31,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 683,241	\$ 683,241	\$ -	\$ 10,833,010	6.31%
Road Commission					
<i>Fiscal year ended December 31,</i>	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ -	\$ -	\$ -	\$ 2,222,722	0.00%

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is immediately prior to the beginning of the fiscal year in which contributions are reported.

Ultimately, 10 fiscal years will be displayed (which may be built prospectively starting from 2014).

Kalamazoo County Employees' Retirement System

Required Supplementary Information Schedule of Contributions

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent-of-Payroll, Open Period
Remaining Amortization Period	10 years
Asset Valuation Method	Market Value with 5-year smoothing
Inflation	3.5% (which includes price inflation of 2.5%)
Salary Increases - General County	3.5% to 9.5%
Salary Increases - Mental Health Authority	3.5% to 5.5%
Salary Increases - Road Commission	3.5% to 8.2%
Investment Rate of Return	7.5% net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2009 valuation pursuant to an experience study of the period 2004 - 2008.
Mortality	1994 Group Annuity Mortality Table

Other Information

There were no benefit changes during the year.

Kalamazoo County Employees' Retirement System
Required Supplementary Information
Schedule of Investment Returns
Annual Money-Weighted Rate of Return, Net of Investment Expense

The annual money-weighted rate of return, net of investment expense for the County, Authority, and Road Commission is as follows:

<u>Kalamazoo County Employees' Retirement System</u>
<u>2014</u>
<u>6.87%</u>

Ultimately, 10 fiscal years will be displayed (which may be built prospectively starting from 2014).

Kalamazoo County Employees' Retirement System

Required Supplementary Information Schedule of the Employers' Net Pension Asset

Total System						
<i>Fiscal year ended December 31,</i>	Total Pension Liability	Plan Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ 161,528,782	\$ 204,508,894	\$ 42,980,112	126.61%	\$ 41,180,449	104.37%

County						
<i>Fiscal year ended December 31,</i>	Total Pension Liability	Plan Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ 107,508,124	\$ 135,697,060	\$ 28,188,936	126.22%	\$ 28,124,717	100.23%

Authority						
<i>Fiscal year ended December 31,</i>	Total Pension Liability	Plan Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ 56,411,194	\$ 71,202,370	\$ 14,791,176	126.22%	\$ 10,833,010	136.54%

Road Commission						
<i>Fiscal year ended December 31,</i>	Total Pension Liability	Plan Net Position	Net Pension Asset	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Asset as a % of Covered Payroll
2014	\$ (2,390,536)	\$ 2,390,536	\$ -	N/A	\$ 2,222,722	0.00%

Ultimately, 10 fiscal years will be displayed (which may be built prospectively starting from 2014).

Supplementary Information

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

	<i>County</i>		
	<i>Contributions</i>		
	<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>
Balance, January 1, 2013	\$ 757,146	\$ 96,476,525	\$ 30,590,897
Additions (deductions):			
Actuarial adjustment	-	(9,548,643)	9,548,643
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	-
Total additions	56,758	15,456,486	12,063,799
Deductions -			
Benefits	-	-	(6,790,560)
Transfers between reserves	(186,429)	-	186,429
Net change in reserves	(129,671)	15,456,486	5,459,668
Balance, December 31, 2013	627,475	111,933,011	36,050,565
Additions (deductions):			
Actuarial adjustment	-	(9,157,422)	9,890,300
Investment income, less investment and administrative expenses of \$1,045,355	35,410	6,963,214	2,831,097
Contributions	-	1,302,099	-
Total additions (deductions)	35,410	(892,109)	12,721,397
Deductions -			
Benefits	-	-	(8,321,899)
Transfers between reserves	(155,341)	-	155,341
Net change in reserves	(119,931)	(892,109)	4,554,839
Balance, December 31, 2014	\$ 507,544	\$ 111,040,902	\$ 40,605,404

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

<i>Road Commission</i>			<i>Authority</i>			<i>Total</i>
<i>Contributions</i>			<i>Contributions</i>			
<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>	<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>	
\$ 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
-	(4,350,764)	1,191,713	-	726,396	1,699,777	-
3,845	1,100,180	347,314	17	1,669,481	325,445	13,276,003
-	-	-	-	683,241	-	1,985,340
3,845	(3,250,584)	1,539,027	17	3,079,118	2,025,222	15,261,343
-	-	(2,304,132)	-	-	(782,018)	(11,408,049)
(129,908)	-	129,908	-	-	-	-
(126,063)	(3,250,584)	(635,197)	17	3,079,118	1,243,204	3,853,294
\$ 55,109	\$ 14,164,672	\$ 4,978,169	\$ 246	\$ 28,492,128	\$ 4,664,720	\$ 204,508,894



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, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 26, 2015.

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

June 26, 2015