

Kent County  
Employees'  
Retirement Plan



Year Ended  
December 31, 2023

Financial  
Statements

**Rehmann**



# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

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## INDEPENDENT AUDITORS' REPORT

June 10, 2024

Members of the Pension Board of the  
Kent County Employees' Retirement Plan  
Grand Rapids, Michigan

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the ***Kent County Employees' Retirement Plan*** (the "Plan", a fiduciary component unit of the County of Kent, Michigan), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Kent County Employees' Retirement Plan, as of December 31, 2023, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2024, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Management's Discussion and Analysis

The following is a discussion and analysis of the financial performance and position of the Kent County Employees' Retirement Plan (the "Plan") for the year ended December 31, 2023. This analysis should be read in conjunction with the *Independent Auditors' Report* and with the financial statements, which follow this section.

### **Financial Highlights**

- Plan assets exceeded liabilities at December 31, 2023 by \$1,062,694,043 (reported as *net position*).
- The Plan's funding objective is to meet the long-term benefit obligations through contributions and investment income. At December 31, 2023, the plan fiduciary net position as a percentage of the total pension liability was 91.72%.
- Additions are comprised of contributions of \$24,509,122, and net investment earnings of \$136,289,665.
- Deductions from net position increased 5.4% from 2022 to 2023 from \$53,003,301 to \$55,853,472 respectively.

### **The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position**

This report consists of two financial statements: the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position*. These financial statements report information about the Plan, as a whole, and about its financial condition that should help answer the question: Is the Plan better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid. The *Statement of Fiduciary Net Position* presents all of the Plan's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the Plan's financial position is improving or deteriorating. The *Statement of Changes in Fiduciary Net Position* presents how the Plan's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the schedules of pension information (presented after the footnotes as required supplementary information) to determine whether the Plan is becoming financially stronger or weaker and to understand changes over time in the funded status of the Plan.

### **Financial Analysis**

Total assets as of December 31, 2023 and 2022 were \$1,063,642,793 and \$959,282,705, respectively, and were comprised of investments and receivables. Total assets increased \$104,360,088 or 10.9% from December 31, 2022 to December 31, 2023, primarily from net appreciation in the fair value of investments.

Total liabilities as of December 31, 2023 were \$948,750, and consisted of amounts payable for management fees and amounts due to brokers. Total liabilities decreased \$585,227 or approximately 38.2% from December 31, 2022 to December 31, 2023, primarily due to timing differences with amounts due to brokers.

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Management's Discussion and Analysis

	Net Position	
	December 31,	
	2023	2022
<b>Assets</b>		
Receivables	\$ 3,276,874	\$ 2,280,829
Investments	1,060,365,919	957,001,876
<b>Total assets</b>	<u>1,063,642,793</u>	<u>959,282,705</u>
<b>Liabilities</b>		
Accounts payable	819,128	794,331
Due to brokers	129,622	739,646
<b>Total liabilities</b>	<u>948,750</u>	<u>1,533,977</u>
<b>Total net position</b>	<u>\$ 1,062,694,043</u>	<u>\$ 957,748,728</u>

#### ***Revenue - Additions to Fiduciary Net Position***

The reserves needed to finance retirement benefits are accumulated through the collection of contributions and through earnings on investments. Contributions and the net investment earnings for fiscal year 2023 totaled \$160,798,787. This represents an increase of \$287,085,432 from the prior year primarily due to investment earnings in the current year, which are expected to fluctuate from year to year based on current market conditions.

#### ***Expenses - Deductions from Fiduciary Net Position***

The primary expenses of the Plan include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and cost of administering the Plan. Total deductions for fiscal years 2023 and 2022 were \$55,853,472 and \$53,003,301, respectively.

Pension benefit payments increased by \$2,882,190 or 5.6% from \$51,159,393 to \$54,041,583 from 2022 to 2023, respectively. Benefit payments fluctuate annually based on the mix of retirees currently receiving benefits.

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Management's Discussion and Analysis

	Changes in Net Position	
	Year Ended December 31,	
	2023	2022
<b>Additions</b>		
Contributions	\$ 24,509,122	\$ 20,764,966
Net investment earnings (loss)	136,289,665	(147,051,611)
<b>Total additions (net of investment loss)</b>	<u>160,798,787</u>	<u>(126,286,645)</u>
<b>Deductions</b>		
Benefit payments	54,041,583	51,159,393
Administrative expenses	762,300	732,930
Refunds of contributions	1,049,589	1,110,978
<b>Total deductions</b>	<u>55,853,472</u>	<u>53,003,301</u>
<b>Change in net position</b>	104,945,315	(179,289,946)
Net position, beginning of year	<u>957,748,728</u>	<u>1,137,038,674</u>
<b>Net position, end of year</b>	<u>\$ 1,062,694,043</u>	<u>\$ 957,748,728</u>

#### *Economic Factors, Investment Returns, and Other Important Matters*

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

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

#### *Contacting the Plan's Financial Management*

This financial report is designed to provide the public, citizens, and other interest parties with a general overview of the Plan's financial position. If you have questions about this report or need additional financial information, contact Michelle Balcom, Pension Administrator, County of Kent, Michigan, 300 Monroe Ave. NW, Grand Rapids, MI 49503.

## **BASIC FINANCIAL STATEMENTS**

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Statement of Fiduciary Net Position

December 31, 2023

### Assets

Investments, at fair value:		
U.S. government obligations	\$ 27,540,594	
U.S. government agency obligations	360,659	
Municipal obligations	438,792	
Corporate obligations	22,613,690	
Common stock	465,718,261	
Foreign obligations	11,561,118	
Foreign common stock	2,640,235	
Money market funds	13,104,088	
International equity mutual funds	216,683,103	
International fixed income mutual funds	148,478,945	
Real estate and infrastructure securities	84,456,926	
Asset-backed securities	9,286,237	
Mortgage-backed securities fund	40,799,896	
Private equity	16,683,375	
Total investments		\$ 1,060,365,919
Receivables:		
Accrued interest receivable	1,034,454	
Contributions receivable	2,242,420	
Total receivables		3,276,874
<b>Total assets</b>		<b>1,063,642,793</b>
<b>Liabilities</b>		
Accounts payable		819,128
Due to brokers		129,622
<b>Total liabilities</b>		<b>948,750</b>
<b>Net position restricted for pension benefits</b>		<b>\$ 1,062,694,043</b>

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

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2023

#### Additions

Contributions:		
Employer	\$ 12,130,911	
Employee	12,378,211	
Total contributions	<u>24,509,122</u>	\$ 24,509,122
Investment earnings:		
Net appreciation in fair value of securities	125,786,660	
Dividends and interest	13,974,972	
Total investment earnings	<u>139,761,632</u>	
Investment expense	<u>(3,471,967)</u>	
Net investment earnings		<u>136,289,665</u>
<b>Total additions</b>		<u>160,798,787</u>
<b>Deductions</b>		
Benefit payments		54,041,583
Administrative expenses		762,300
Refunds of contributions		<u>1,049,589</u>
<b>Total deductions</b>		<u>55,853,472</u>
<b>Change in net position</b>		104,945,315
Net position, beginning of year		<u>957,748,728</u>
<b>Net position, end of year</b>		<u>\$ 1,062,694,043</u>

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

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## **NOTES TO FINANCIAL STATEMENTS**

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Notes to Financial Statements

### 1. PLAN DESCRIPTION

The Kent County Employees' Retirement Plan (the "Plan") is a single-employer defined benefit contributory retirement plan that provides pension, death and disability benefits covering substantially all full-time and regular part-time employees of the County of Kent, Michigan (the "County").

The Plan was established by the Kent County Board of Commissioners and is administered by a seven member board called the Kent County Employees' Retirement Plan Pension Board. The Board is comprised of the Chairperson of the Finance Committee of the Commissioners, one other commissioner appointed by the Board of Commissioners, three employees covered by the Plan, and two residents of the County who are independent of the County and the Plan. The Plan is included as a fiduciary component unit of the County because (1) the Plan is a legally separate entity; (2) the County Board of Commissioners appoints a voting majority of the Pension Board; and (3) the County makes contributions to the Plan on behalf of its participants. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Kent County Board of Commissioners.

Plan membership consisted of the following at December 31, 2023:

Retirees and beneficiaries currently receiving benefits	1,714
Terminated employees entitled to but not yet receiving benefits	248
Vested and non-vested active participants	<u>1,635</u>
<b>Total membership</b>	<u><u>3,597</u></u>

#### ***Benefits Provided***

Employees who retire with minimum age and years of service requirements are entitled to annual retirement benefits, payable in monthly installments for life, in an amount equal to a percentage of their final average compensation based on years of credited service. Plan members hired through December 31, 2010 are eligible to receive pension benefits upon retirement at age 60 with 5 years of service or at any age with 25 years of service. Members hired on or after January 1, 2011 (January 1, 2012 for the Teamsters-Parks, Circuit Court Referees, and Teamsters-Public Health Nurses) are eligible at age 62 with 5 years of service or at age 60 (55 for captains and lieutenants) with 25 years of service. Members of the KCDSA bargaining unit hired on or after January 1, 2013 and members of the FOP bargaining unit hired on or after January 1, 2015 are eligible to receive this benefit at age 60 with 5 years of service or age 50 with 25 years of service. An early retirement option is offered for retirement at age 55 with 15 or more years of service.

Cost-of-living adjustments (COLAs) vary based on bargaining unit and hire date and range from 1%-3%.

Retirees are eligible for postemployment healthcare benefits if they are receiving a pension from the Plan. The Kent County Voluntary Employees' Beneficiary Association (VEBA) pays these benefits. These benefits are accounted for in the VEBA trust fiduciary fund, included in the County's annual comprehensive financial report.

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Notes to Financial Statements

### ***Contributions***

*Employee Contributions.* After meeting eligibility requirements, active plan members are required to contribute to the Plan based on their bargaining unit or management group contribution rate. The variable rate was 9.23% for the year ended December 31, 2023. The additional amounts paid by the members of the three unions covering public safety officers are a fixed amount added to the variable rate and ranged from 1.75%-3.50%.

*Employer Contributions.* The County's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are designed to accumulate sufficient assets to pay benefits when due. The County's contribution rate for the year ended December 31, 2023, was 10.13% of projected valuation payroll. The normal cost and amortization payment were determined using an entry-age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a closed period of 17 years.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ***Basis of Accounting***

The Plan's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

### ***Valuation of Investments and Income Recognition***

The Plan's investments are stated at fair value as described in Note 3.

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the trade date, which is the date when the transaction is initiated.

### ***Administration***

Administrative costs are financed initially through forfeited contributions by terminated employees not vested in the plan and then through the Plan's investment earnings.

### ***Use of Estimates***

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

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Notes to Financial Statements

### *Risk and Uncertainties*

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

## 3. DEPOSITS AND INVESTMENTS

### *Cash and Short-term Investments*

The Plan does not maintain any checking or other demand/time deposit accounts. The amounts reported as money market funds in the statement of fiduciary net position are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2023, was \$13,104,088, of which the insured amount was \$2,000,007. The remaining balance of \$11,104,081 is uninsured and uncollateralized.

### *Investments*

The Plan is authorized by the Michigan Public Employees Retirement Systems' Investment Act 314 of 1965, as amended, to invest in stocks, government and corporate securities, mortgages, real estate, and various other instruments, subject to certain limitations. The Plan's Pension Board is responsible for adopting the investment policies and strategies, and retaining/monitoring the various investment managers, advisors, actuaries and other fiduciaries utilized by the Plan.

*Investment Policy.* The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Plan's asset allocation policy as of December 31, 2023 is detailed in Note 4.

*Rate of Return.* For the year ended December 31, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.43%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

The Plan's investments are held in 16 portfolios administered by various investment managers. Following is a summary of the Plan's investments (at fair value) as of December 31, 2023:

U.S. government obligations	\$ 27,540,594
U.S. government agency obligations	360,659
Municipal obligations	438,792
Corporate obligations	22,613,690
Common stock	465,718,261
Foreign obligations	11,561,118
Foreign common stock	2,640,235
Money market funds	13,104,088
International equity mutual funds	216,683,103
International fixed income mutual funds	148,478,945
Real estate and infrastructure securities	84,456,926
Asset-backed securities	9,286,237
Mortgage-backed securities fund	40,799,896
Private equity	<u>16,683,375</u>
<b>Total investments</b>	<b><u>\$1,060,365,919</u></b>

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy requires that bonds have a minimum quality rating of Baa3/BBB/BBB- at the time of purchase. The overall portfolio is expected to maintain an average credit quality of A- or higher. Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall not be rated less than A1/P1 unless held in a diversified short-term commingled fund. For collateralized mortgage obligations, only issues rated AA-/Aa3 or better at time of purchase are permitted.

As of December 31, 2023, the Plan's investments were rated as follows:

Standard and Poor's AAA	\$ 5,382,483
Standard and Poor's AA	2,826,924
Standard and Poor's A	12,354,118
Standard and Poor's BBB	20,958,690
Standard and Poor's BB	197,983
Standard and Poor's B	12,820
Unrated	127,000,614
Not subject to credit risk	<u>891,632,287</u>
<b>Total investments</b>	<b><u>\$1,060,365,919</u></b>

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Plan's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Plan's name. Short-term investments in money market funds and equity mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. For fixed income portfolios, the Plan's Investment Policy provides that, with the exception of U.S. treasuries and agencies, no more than 3% of the portfolio shall be invested in the obligations of any one issuer. For equity portfolios, no single company's securities should represent more than 5% at cost, or 7% at market value, of the individual manager's portfolio. Collateralized mortgage obligations are limited to 5% per issue. As of December 31, 2023, the Plan had no investment in a single issuer, other than U.S. treasuries and agencies, that exceeded the above percentages.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's investment policy mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. Country exposures are monitored through a quarterly performance report. The Plan's exposure to foreign currency risk as of December 31, 2023 in U.S. dollars is as follows:

Foreign obligations	\$ 11,561,118
Foreign common stock	2,640,235
International equity mutual funds	216,683,103
International fixed income mutual funds	<u>148,478,945</u>
<b>Total</b>	<b><u>\$ 379,363,401</u></b>

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's policy provides for its fixed income portfolio to have an average duration of no more than 120% of the duration of the stated benchmark (which varies by portfolio). Investments in equity mutual funds are comprised of securities with no stated maturity date. Accordingly, such investments are deemed to have an average duration of zero years. At December 31, 2023, maturities of the Plan's investments were as follows:

Less than 1 year	\$ 1,906,357
1 - 5 years	30,610,815
6 - 10 years	27,743,459
More than 10 years	38,041,135
No maturity	<u>962,064,153</u>
<b>Total investments</b>	<b><u>\$1,060,365,919</u></b>

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

*Fair Value Measurements.* The Plan categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by management's review of the type and substance of investments held by the Plan. Level 2 inputs use one of the following valuation techniques depending on the investment: a) traditional asset valuation (dividing the asset value by the number of units owned), b) matrix pricing technique (relying on the securities' relationship to other benchmark quoted securities instead of exclusively on quoted prices for specific securities), or c) quoted market prices for similar assets in active markets or quoted prices for identical or similar assets in markets that are not active.

	Level 1	Level 2	Level 3	Total
U.S. government obligations	\$ -	\$ 27,540,594	\$ -	\$ 27,540,594
U.S. government agency obligations	-	360,659	-	360,659
Municipal obligations	-	438,792	-	438,792
Corporate obligations	-	22,613,690	-	22,613,690
Common stock	122,337,245	343,381,016	-	465,718,261
Foreign obligations	-	11,561,118	-	11,561,118
Foreign common stock	2,640,235	-	-	2,640,235
International equity mutual funds	-	216,683,103	-	216,683,103
International fixed income mutual funds	58,838,417	44,454,094	45,186,434	148,478,945
Real estate and infrastructure securities	-	-	84,456,926	84,456,926
Asset-backed securities	-	9,286,237	-	9,286,237
Mortgage-backed securities fund	-	40,799,896	-	40,799,896
Private equity	-	-	16,683,375	16,683,375
<b>Total investments by fair value level</b>	<b>\$ 183,815,897</b>	<b>\$ 717,119,199</b>	<b>\$ 146,326,735</b>	<b>1,047,261,831</b>
Money market funds measured at amortized cost (which approximates fair value)				<u>13,104,088</u>
<b>Total investments</b>				<u><b>\$ 1,060,365,919</b></u>

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

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

#### 4. PRIVATE EQUITY COMMITMENT

As of December 31, 2023, the Plan had the following amounts outstanding private equity commitments:

	<b>Initial Commitment</b>	<b>Capital Contributions</b>	<b>Outstanding Commitment</b>
Truebridge Capital Partners Fund I	\$ 7,500,000	\$ 1,800,000	\$ 5,700,000
Truebridge Capital Partners Fund VIII	7,500,000	150,000	7,350,000
Saw Mill Capital Partners III	20,000,000	2,765,193	17,234,807
Warburg Pincus Global Growth 14	40,000,000	11,600,000	28,400,000
<b>Total</b>	<b>\$ 75,000,000</b>	<b>\$ 16,315,193</b>	<b>\$ 58,684,807</b>

Private equity valuation of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are often valued initially based upon cost. Each quarter, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a nonpublic investment and the fact that comparable public companies are not identical to the companies being valued. Such valuation adjustments are necessary because in the absence of a committed buyer and completion of due diligence similar to that performed in an actual negotiated sale process, there may be company-specific issues that are not fully known that may affect value. In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, current operating performance and future expectations of the particular investment, changes in market outlook and the third-party financing environment. As a result of these characteristics, the Plan's investment consultant believes private equity investments should be included in Level 3 of the fair value hierarchy.

The agreements provide that the term of each partnership fund will begin on the initial closing date of the applicable partnership fund for a 12 – 15 year commitment. Limited partners may not withdraw from the fund, nor may they sell, transfer or assign their interests except with the consent of the General Partner.



# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Notes to Financial Statements

### 5. NET PENSION LIABILITY OF THE COUNTY

*Net Pension Liability.* The components of the net pension liability of the County at December 31, 2023, were as follows:

Total pension liability	\$ 1,158,631,252
Plan fiduciary net pension	<u>1,062,694,043</u>
<b>County's net pension liability</b>	<b><u>\$ 95,937,209</u></b>
Plan fiduciary net position as a percentage of the total pension liability	91.72%

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2022 (rolled forward to December 31, 2023), using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.5%
Wage inflation	3.5%
Salary increases	3.6% to 10.5%, including inflation
Investment rate of return	6.50%

Mortality rates were based on the Pub-2010 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2021 Mortality Improvement Scales.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study dated February 16, 2024.

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

*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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2023 (see the discussion of the pension plan's investment policy in Note 3) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Core bonds	10.00%	5.31%	0.53%
Multi-sector fixed income	8.00%	6.25%	0.50%
Absolute return	5.00%	6.00%	0.30%
U.S. large cap equity	25.00%	9.90%	2.48%
U.S. small cap equity	10.00%	11.33%	1.13%
International developed equity	15.00%	10.78%	1.62%
Emerging market equity	5.00%	12.04%	0.60%
Private equity	10.00%	13.26%	1.33%
Core real estate	5.00%	9.24%	0.46%
Value add real estate	5.00%	10.74%	0.54%
Infrastructure	2.00%	8.82%	0.18%
Total	<u>100.00%</u>		9.67%
Risk adjustment			<u>-3.17%</u>
<b>Investment rate of return</b>			<u><b>6.50%</b></u>

*Discount Rate.* The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Notes to Financial Statements

*Changes in the Net Pension Liability.* The components of the change in the net pension liability are summarized as follows:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at December 31, 2022	\$ 1,088,736,683	\$ 957,748,728	\$ 130,987,955
Changes for the year:			
Service cost	21,988,046	-	21,988,046
Interest on total pension liability	69,692,033	-	69,692,033
Differences between expected and actual experience	10,018,916	-	10,018,916
Assumption changes	23,286,746	-	23,286,746
Employer contributions	-	12,130,911	(12,130,911)
Employee contributions	-	12,378,211	(12,378,211)
Net investment earnings	-	136,289,665	(136,289,665)
Benefit payments	(54,041,583)	(54,041,583)	-
Administrative expenses	-	(762,300)	762,300
Refunds of contributions	(1,049,589)	(1,049,589)	-
Net changes	<u>69,894,569</u>	<u>104,945,315</u>	<u>(35,050,746)</u>
<b>Balances at December 31, 2023</b>	<u><u>\$ 1,158,631,252</u></u>	<u><u>\$ 1,062,694,043</u></u>	<u><u>\$ 95,937,209</u></u>

*Assumption changes.* The 2023 valuation incorporates the following assumption changes:

- Pub-2010 mortality tables
- MP-2021 mortality projection scale
- Increase merit and seniority pay rates
- Increase service based retirement rates and age-based retirement rates for members subject to 62 & 5 or 60 & 25 retirement eligibility conditions
- Decrease withdrawal rates
- Decrease disability rates for general members

The overall impact of the assumption changes increased both the contribution rate (by 2.54%) and the actuarial accrued liabilities (by approximately \$23.3 million).

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents the net pension liability (asset) of the County, calculated using the discount rate of 6.50%, as well as what the County's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<b>One Percent Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>One Percent Increase (7.50%)</b>
County's net pension liability (asset)	\$ 257,392,728	\$ 95,937,209	\$ (32,740,698)

# KENT COUNTY EMPLOYEES' RETIREMENT PLAN

## Notes to Financial Statements

### 6. RISK MANAGEMENT

The Plan is exposed to various risks of loss related to torts, errors and omissions. The Plan participates in the County of Kent, Michigan's risk management program for all of these exposures. The County's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The County estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Plan that would require a liability to be recorded in the financial statements.

In addition, the Plan holds a fiduciary liability insurance policy to protect the Pension Board and County employees administering the Plan against allegations of breach of fiduciary responsibility. The policy includes an aggregate claim limit of \$3,000,000.



**REQUIRED SUPPLEMENTARY INFORMATION**

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Required Supplementary Information

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

	Year Ended December 31,		
	2023	2022	2021
<b>Total pension liability</b>			
Service cost	\$ 21,988,046	\$ 21,725,306	\$ 19,898,177
Interest on total pension liability	69,692,033	67,228,999	64,813,988
Benefit changes	-	-	-
Difference between expected and actual experience	10,018,916	2,487,928	6,465,409
Assumption changes	23,286,746	-	32,324,836
Benefit payments	(54,041,583)	(51,159,393)	(47,728,332)
Refunds of contributions	(1,049,589)	(1,110,978)	(663,124)
Distribution to Gerald R. Ford International Airport Authority	-	-	-
<b>Net change in total pension liability</b>	<b>69,894,569</b>	<b>39,171,862</b>	<b>75,110,954</b>
Total pension liability, beginning of year	1,088,736,683	1,049,564,821	974,453,867
<b>Total pension liability, end of year</b>	<b>1,158,631,252</b>	<b>1,088,736,683</b>	<b>1,049,564,821</b>
<b>Plan fiduciary net position</b>			
Employer contributions	12,130,911	9,856,852	11,204,271
Employee contributions	12,378,211	10,908,114	10,908,085
Net investment income (loss)	136,289,665	(147,051,611)	132,822,471
Benefit payments	(54,041,583)	(51,159,393)	(47,728,332)
Administrative expenses	(762,300)	(732,930)	(722,212)
Refunds of contributions	(1,049,589)	(1,110,978)	(663,124)
Distribution to Gerald R. Ford International Airport Authority	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>104,945,315</b>	<b>(179,289,946)</b>	<b>105,821,159</b>
Plan fiduciary net position, beginning of year	957,748,728	1,137,038,674	1,031,217,515
<b>Plan fiduciary net position, end of year</b>	<b>1,062,694,043</b>	<b>957,748,728</b>	<b>1,137,038,674</b>
<b>County's net pension liability (asset)</b>	<b>\$ 95,937,209</b>	<b>\$ 130,987,955</b>	<b>\$ (87,473,853)</b>
Plan fiduciary net position as a percentage of total pension liability	91.72%	87.97%	108.33%
Covered payroll <sup>(1)</sup>	\$ 109,507,676	\$ 105,916,671	\$ 104,840,613
County's net pension liability (asset) as a percentage of covered payroll	87.61%	123.67%	-83.44%

<sup>(1)</sup> Valuation payroll as of the previous year ended December 31

See notes to required supplementary information.

**Year Ended December 31,**

<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
\$ 19,484,646	\$ 18,181,774	\$ 17,404,156	\$ 16,899,725	\$ 16,888,031	\$ 15,924,610	\$ 16,145,491
62,655,769	59,926,039	59,367,396	57,510,730	54,926,464	51,987,575	49,676,858
-	-	-	-	(185,975)	(476,713)	-
(3,167,615)	6,788,289	5,037,610	(8,133,524)	12,418,940	(8,805,534)	-
-	-	169,077	-	-	27,445,379	-
(45,596,530)	(43,444,076)	(40,615,954)	(38,366,716)	(35,536,696)	(33,243,393)	(31,099,736)
(423,931)	(749,644)	(549,386)	(478,636)	(725,789)	(477,321)	(582,890)
-	-	-	-	(19,162,598)	-	-
32,952,339	40,702,382	40,812,899	27,431,579	28,622,377	52,354,603	34,139,723
941,501,528	900,799,146	859,986,247	832,554,668	803,932,291	751,577,688	717,437,965
974,453,867	941,501,528	900,799,146	859,986,247	832,554,668	803,932,291	751,577,688
12,005,262	9,007,032	8,939,628	8,965,098	7,153,893	8,858,387	8,929,617
10,603,354	9,602,636	9,315,169	9,275,253	9,131,552	9,364,823	9,209,179
103,391,931	155,017,171	(50,232,182)	130,100,983	55,834,348	(1,703,474)	47,055,073
(45,596,530)	(43,444,076)	(40,615,954)	(38,366,716)	(35,536,696)	(33,243,393)	(31,099,736)
(672,716)	(763,201)	(536,943)	(665,347)	(574,511)	(600,482)	(745,779)
(423,931)	(749,644)	(549,386)	(478,636)	(725,789)	(477,321)	(582,890)
-	-	-	-	(19,162,598)	-	-
79,307,370	128,669,918	(73,679,668)	108,830,635	16,120,199	(17,801,460)	32,765,464
951,910,145	823,240,227	896,919,895	788,089,260	771,969,061	789,770,521	757,005,057
1,031,217,515	951,910,145	823,240,227	896,919,895	788,089,260	771,969,061	789,770,521
<u>\$ (56,763,648)</u>	<u>\$ (10,408,617)</u>	<u>\$ 77,558,919</u>	<u>\$ (36,933,648)</u>	<u>\$ 44,465,408</u>	<u>\$ 31,963,230</u>	<u>\$ (38,192,833)</u>
105.83%	101.11%	91.39%	104.29%	94.66%	96.02%	105.08%
<u>\$ 97,618,555</u>	<u>\$ 97,993,092</u>	<u>\$ 91,815,718</u>	<u>\$ 88,577,675</u>	<u>\$ 96,286,815</u>	<u>\$ 90,602,575</u>	<u>\$ 91,944,708</u>
-58.15%	-10.62%	84.47%	-41.70%	46.18%	35.28%	-41.54%

## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Required Supplementary Information

#### Schedule of County Contributions

Year Ended December 31,	Actuarially Determined Contribution <sup>(2)</sup>	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2014	\$ 8,929,617	\$ 8,929,617	\$ -	\$ 90,602,575	9.86%
2015	8,858,387	8,858,387	-	96,286,815	9.20%
2016	7,153,893	7,153,893	-	88,577,675	8.08%
2017	8,965,098	8,965,098	-	91,815,718	9.76%
2018	8,939,628	8,939,628	-	97,993,092	9.12%
2019	9,007,032	9,007,032	-	97,618,555	9.23%
2020	12,005,262	12,005,262	-	104,840,613	11.45%
2021	11,204,271	11,204,271	-	105,916,671	10.58%
2022	9,856,852	9,856,852	-	109,507,676	9.00%
2023	12,130,911	12,130,911	-	118,998,757	10.19%

<sup>(2)</sup> The actuarially determined contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

See notes to required supplementary information.



## KENT COUNTY EMPLOYEES' RETIREMENT PLAN

### Required Supplementary Information

#### Schedule of Investment Returns

Year Ended December 31,	Annual Return <sup>(3)</sup>
2014	6.34%
2015	-0.31%
2016	7.37%
2017	16.68%
2018	-5.75%
2019	19.01%
2020	10.97%
2021	13.10%
2022	-13.17%
2023	14.43%

<sup>(3)</sup> Annual money-weighted rate of return, net of investment expenses.

## COUNTY OF KENT, MICHIGAN

### Notes to Required Supplementary Information

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

The December 31, 2023 valuation incorporates assumption changes in accordance with the five-year experience study report issued February 16, 2024 covering the period from January 1, 2018 through December 31, 2022. The adopted changes are summarized as follows: Pub-2010 mortality tables; MP-2021 mortality projection scale, increase merit and seniority pay rates, increase service based retirement rates and age-based retirement rates for members subject to 62 & 5 or 60 & 25 retirement eligibility conditions, decrease withdrawal rates, decrease disability rates for general members.

The December 31, 2021 valuation incorporates an assumption change in the discount rate from 6.75% to 6.50%.

The December 31, 2018 valuation incorporates assumption changes in accordance with the experience study dated November 8, 2018 and adopted by the Board on November 14, 2018. The adopted changes are summarized as follows: 6.75% investment return assumption, 3.50% wage inflation assumption, MP-2018 mortality projection scale; decrease retirement rates, decrease withdrawal rates.

The December 31, 2016 and 2015 valuations incorporate changes to the benefit provisions and assumptions as of the measurement date were reflected in the rolled-forward total pension liability. These changes include updates to the mortality assumption and the non-duty disability provision for certain groups.

The December 31, 2015 valuation incorporates assumption changes that had a significant impact on the total pension liability from the prior measurement date. The most significant changes were related to the non-duty disability provision and the member contribution rate for certain groups.

## COUNTY OF KENT, MICHIGAN

### Notes to Required Supplementary Information

#### *Notes to the Schedule of County Contributions*

Valuation Date December 31, 2021  
Notes Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

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

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	17 years
Asset valuation method	4-year smoothed fair value
Inflation	3.5%
Salary increases	3.5%-10.5%, including inflation
Investment rate of return	6.50%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to the January 1, 2013 – December 31, 2017 Experience Study.
Mortality	The RP-2014 Mortality Tables with 2-dimensional, fully generational improvements projected with the MP-2018 Mortality Improvement Scales. These tables were first used for the December 31, 2018 valuation.
Cost-of-living adjustment	Varies from 1% to 3%, depending on union

#### **Other information**

Notes The employer contribution for fiscal year 2023 was determined in the December 31, 2021 actuarial valuation.

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## **INTERNAL CONTROL AND COMPLIANCE**

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

June 10, 2024

Members of the Pension Board of the  
Kent County Employees' Retirement Plan  
Grand Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Kent County Employees' Retirement Plan** (the "Plan", a fiduciary component unit of the County of Kent, Michigan), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated June 10, 2024.

### **Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the 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 or significant deficiencies may exist that were not identified.



## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

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