

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM**

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)**

YEARS ENDED DECEMBER 31, 2021 AND 2020



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2425 E. Grand River Ave.,
Suite 1, Lansing, MI 48912

☎ 517.323.7500

🖨 517.323.6346

INDEPENDENT AUDITOR'S REPORT

To the Members of the Employees'
Retirement System Investment Committee
and the City Commission of Kalamazoo
Kalamazoo, Michigan

Report on the Financial Statements

Opinion

We have audited the accompanying statements of plan net position of the City of Kalamazoo Employees' Retirement System (the System), as of December 31, 2021 and 2020, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the City of Kalamazoo Employees' Retirement System as of December 31, 2021 and 2020, and the respective changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Kalamazoo Employees' Retirement System 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 opinions.

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 City of Kalamazoo Employees' Retirement System'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.

Auditor's 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 auditor's report that includes our opinions. 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 generally accepted 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 generally accepted 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 City of Kalamazoo Employees' Retirement System'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 City of Kalamazoo Employees' Retirement System'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 schedules of pension information, as identified 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.

Emphasis of a Matter

As discussed in Note 2, the financial statements present only the City of Kalamazoo Employees' Retirement System and do not purport to, and do not present fairly the financial position of the City of Kalamazoo, Michigan, as of December 31, 2021 and 2020, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Manes Costeiran PC

June 30, 2022

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a discussion and analysis of the financial performance and position of the City of Kalamazoo Employees' Retirement System ("The Retirement System"). It is intended to provide an overview of the Retirement Systems' financial activities for the fiscal year ended December 31, 2021 and 2020. This analysis should be read in conjunction with the Independent Auditor's Report and with the financial statements, which follows this section.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior years:

	Year Ended December 31,		
	2021	2020	2019
Total assets	\$ 805,983,195	\$ 704,618,702	\$ 677,160,239
Total liabilities	58,400	41,919	20,971
Net position held in trust for pension benefits	<u>\$ 805,924,795</u>	<u>\$ 704,576,783</u>	<u>\$ 677,139,268</u>
Net investment income	\$ 133,637,208	\$ 57,798,914	\$ 112,193,170
Contributions			
Plan members	<u>1,345,658</u>	<u>1,285,845</u>	<u>1,238,420</u>
Total additions	<u>134,982,866</u>	<u>59,084,759</u>	<u>113,431,590</u>
Pension benefits	33,005,277	31,065,811	30,034,033
Refund payments to terminated employees	<u>59,568</u>	<u>46,733</u>	<u>179,863</u>
Total benefits paid	33,064,845	31,112,544	30,213,896
General and administrative expenses	<u>570,009</u>	<u>534,700</u>	<u>449,839</u>
Total deductions from net position	<u>33,634,854</u>	<u>31,647,244</u>	<u>30,663,735</u>
Net change in net position held in trust	101,348,012	27,437,515	82,767,855
Net position held in trust for pension benefits			
Beginning of Year	<u>704,576,783</u>	<u>677,139,268</u>	<u>594,371,413</u>
End of Year	<u>\$ 805,924,795</u>	<u>\$ 704,576,783</u>	<u>\$ 677,139,268</u>
Ratio of benefits paid to contributions	2457%	2420%	2440%

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overall Fund Structure and Objectives

The Retirement System is a single-employer defined benefit contributory retirement plan. It was established to provide retirement, disability, and death benefits to city retirees and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. Plan members are required to contribute 1.0% to 6.5% of their annual covered salary to the Retirement System, depending upon their bargaining unit. The City contributes such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits.

The City was not required to make a contribution for 2021 or 2020. The excess of benefits over contributions is funded through investment income. The Retirement System is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations.

Each year, an actuarial valuation of the Retirement System is completed. As of the December 31, 2021 actuarial report, the valuation of assets represents 136.0% of accrued liabilities. Last year the ratio was 130.8%. The increase in funding position is primarily the result of the 2021 plan experience gain due to favorable asset experience.

Asset Allocation

It is the responsibility of the City of Kalamazoo Retirement Investment Committee (RIC) to recommend to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries, and other fiduciaries utilized by the Retirement System. The RIC determines the allocation of assets in accordance with allowable legal limits. In setting asset allocation policy, the RIC reviews the expected returns of various asset classes, the Plan's actuarial assumption rate, and the risks associated with alternative asset mix strategies. The RIC has established the following asset allocation:

<u>Asset Class</u>	<u>Target</u>
U.S. Small Cap (Manager 1)	5.00%
U.S. Small Cap (Manager 2)	10.00%
International Developed Equity	10.00%
U.S. Large Cap (Manager 1)	30.00%
U.S. Large Cap (Manager 2)	5.00%
Emerging Markets	10.00%
Domestic Fixed Income	25.00%
Real Estate (Manager 1)	2.50%
Real Estate (Manager 2)	2.50%

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This asset allocation policy offers the optimal mix for meeting longer term goals at an acceptable level of risk. The asset classes stated above shall be further diversified (where possible) as to style and manager type to reduce risk further, while providing the opportunity for enhanced return. The Retirement System's investments are held in nine portfolios administered by five investment managers.

Economic Factors, Investment Returns, and Other Important Matters

The Retirement System's purpose is to provide long-term benefit payments to its members. It is through long-term investing, as shown by the 30 year history of returns realized by the investment strategy of the Retirement Investment Committee (RIC), that these promised benefits will be primarily funded. Through its investment policy asset allocation, the RIC has positioned the portfolio for this long-term investment objective. There are no major changes to the investment strategy for 2022.

In addition, to further maximize investment returns and preserve fund assets, the RIC carefully monitors the performance of each of its investment managers and takes the necessary corrective action to ensure acceptable investment results. To this end, the RIC voluntarily complies with the guidelines put forth by the Employee Retirement Income System Act (ERISA), which is designed to protect the interests of members and beneficiaries of pension systems.

The City's Group Trust contains the City's Pension, the Central County Transportation Authority's (CCTA) Pension, and OPEB investment assets. The investment portfolio reported a net return of 19.32% in 2021, comparatively higher than the net return of 9.25% in 2020. Equities returned 26.59%, Fixed Income had losses of (2.43%), and Real Estate returned 32.31%. The net position of the Pension System at year end was approximately \$805.9 million, an increase of \$101.3 million from fiscal year 2020.

In 2021 the stock market delivered a strong performance due to a robust economic recovery, despite the continued presence of the global COVID-19 pandemic. The S&P 500 gained 26.9%, the Dow Jones Industrial Average gained 18.7%, and the Nasdaq Composite gained 21.4%. Federal stimulus, historically low interest rates, and vaccine rollout spurred economic growth, and the stock market set multiple new highs throughout the year. 2022 will bring another year of uncertainty, as Global and US economies continue to recover from the pandemic and deal with labor shortages, supply chain issues, and rising inflation.

Contacting the System's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of the Retirement System's financial position. If you have questions about this report or need additional financial information, contact Steve Vicenzi, Director of Management Services, City of Kalamazoo, 241 W. South Street, Kalamazoo, MI 49007, (269) 337-8336.

BASIC FINANCIAL STATEMENTS

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	<u>\$ 445,370</u>	<u>\$ 257,258</u>
Receivables		
Accounts	-	33,102
Interest and dividends	715,125	622,728
Investments sold	<u>2,531,040</u>	<u>3,723,357</u>
Total receivables	<u>3,246,165</u>	<u>4,379,187</u>
Investments, at fair value		
U.S. Treasuries	74,969,240	50,101,613
Corporate bonds	66,248,053	76,612,417
Municipal bonds	224,796	268,419
Collateralized mortgage obligations	53,832,242	43,683,461
Equity mutual funds	564,024,705	494,344,812
Real estate mutual funds	<u>42,992,624</u>	<u>34,971,535</u>
Total investments	<u>802,291,660</u>	<u>699,982,257</u>
Total assets	<u>805,983,195</u>	<u>704,618,702</u>
LIABILITIES		
Accounts payable	<u>58,400</u>	<u>41,919</u>
NET POSITION		
Net position restricted for pension benefits	<u><u>\$ 805,924,795</u></u>	<u><u>\$ 704,576,783</u></u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ADDITIONS TO NET POSITION		
Investment income		
Change in fair value of investments	\$ 111,649,407	\$ 48,623,966
Interest	2,643,486	3,510,851
Dividends	21,558,645	7,742,103
	<u>135,851,538</u>	<u>59,876,920</u>
Total investment income	135,851,538	59,876,920
Less investment expense	<u>(2,214,330)</u>	<u>(2,078,006)</u>
Net investment income	133,637,208	57,798,914
Contributions		
Plan members	<u>1,345,658</u>	<u>1,285,845</u>
Total additions to net position	<u>134,982,866</u>	<u>59,084,759</u>
DEDUCTIONS FROM NET POSITION		
Benefits	33,005,277	31,065,811
Refunds of contributions	59,568	46,733
Administrative expenses	236,148	224,903
Other expenses	<u>333,861</u>	<u>309,797</u>
Total deductions from net position	<u>33,634,854</u>	<u>31,647,244</u>
CHANGE IN PLAN NET POSITION	101,348,012	27,437,515
Net position - beginning of year	<u>704,576,783</u>	<u>677,139,268</u>
Net position - end of year	<u><u>\$ 805,924,795</u></u>	<u><u>\$ 704,576,783</u></u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - PLAN DESCRIPTION

Plan Administration

The City of Kalamazoo Employees' Retirement System (the System) is a single-employer defined benefit contributory plan which provides pension, disability, and death benefits to all full-time employees and some part-time employees of the City of Kalamazoo, Michigan (the City).

The System is administered by the City of Kalamazoo Employees' Retirement System Pension Board of Trustees. The Board consists of five individual trustees either elected or appointed in accordance with the City Ordinance. One member is a City Commissioner and one member is the City Manager. Two members, including one Public Safety representative and one General Member representative, are elected by active members of the retirement system. The last member is a citizen who is appointed by the City Commission. All elected terms are three years. The Plan benefit provisions were established and may be amended under the authority of City Ordinances. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the City Commission of the City of Kalamazoo.

Plan Membership

System membership consisted of the following at December 31, 2021 and 2020, according to actuarial valuations as of those dates:

	<u>2021</u>	<u>2020</u>
Retirees and beneficiaries receiving benefits	918	913
Terminated plan members entitled to, but not yet receiving, benefits	70	66
Active plan members	<u>622</u>	<u>592</u>
Total	<u><u>1,610</u></u>	<u><u>1,571</u></u>
Number of participating employers	1	1

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - PLAN DESCRIPTION (continued)

Benefits Provided

The System provides retirement, death and disability benefits to plan members and their beneficiaries as follows:

Regular retirement - General members are eligible for benefits at age 57 with 25 or more years of service or age 62 with 10 or more years of service. American Federation of State, County and Municipal Employees (AFSCME) members are eligible for benefits at age 60 with 20 or more years of service. Exempt members are eligible for benefits at age 62 with 5 years of service. Public safety members are eligible for benefits with 25 years of service or at age 50 with 10 or more years of service. Retirement benefits are calculated as final average compensation (highest 3 consecutive years out of the last 10) times 2.1% for each year of service for general plan members, Kalamazoo Municipal Employee's Association (KMEA) members, and AFSCME members, 2.3% for each year of service for exempt members and 2.7% for each year of service for the general member administrator, City manager, and public safety members. The maximum benefit is 70.2% of final average compensation for public safety members.

Early retirement - General members are eligible for benefits at age 55 with 15 or more years of service. Public safety members are eligible for benefits with 20 years of service. Retirement benefits are calculated as regular retirement but reduced by 4/10 of 1% for each month and fraction of a month by which retirement precedes age 62 if less than 25 years of service or age 57 if 25 or more years of service for general plan members and 2% of final average compensation multiplied by years of credited service for public safety members.

Deferred retirement - Members are eligible for benefits with 10 years of service for most members, 5 years for exempt members, 9 years for AFSCME members hired before October 2, 2016, and 8 years for KMEA members hired before January 1, 2009. Benefits begin at age 62 for general members, and at age 50 for public safety members. Retirement benefits are calculated as regular or early retirement but based upon service and final average compensation at termination date for general members as early retirement for public safety members.

Death and disability - Members are eligible for benefits, in accordance with plan provisions, after 10 years of service for most members, 5 years for exempt members, 9 years for AFSCME members hired before October 2, 2016, and 8 years for KMEA members hired before January 1, 2009. Service requirements are waived for duty disability and death benefits.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. Pensions of AFSCME members who retire on or after October 25, 1999, are increased 1% per year, compounded annually, beginning 1 year after retirement and 2% per year, compounded annually, beginning at age 75. Pensions of KMEA members are increased 1.5% per year, compounded annually, beginning the latter of the retirees' 64th birthday and 1 year after retirement and 2% per year, compounded annually, beginning at age 75. Pensions of public safety members who retire on and after January 1, 1995, with 25 or more years of service, are increased 2% per year, compounded annually. Pensions of exempt members are increased 1.5% per year, compounded annually, beginning 1 year after retirement for members who elected to contribute by May 2006. Pensions of the City manager are increased 2% per year, compounded annually.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - PLAN DESCRIPTION (continued)

Deferred Retirement Option Program

Public safety administrators meeting relevant provisions for an unreduced retirement allowance, authorization by the City Manager, and approval of the City Commission are eligible for the deferred retirement option program (DROP). The annual benefit is computed as regular retirement but is frozen at date of DROP election. For the years ended December 31, 2021 and 2020, the balance of amounts held by the Plan pursuant to the DROP were \$121,743 and \$286,645, respectively.

Contributions

System members are required to contribute between 1.0 to 6.5% of annual compensation to the System for pension benefits, depending on bargaining unit. The City is required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for years ended December 31, 2021 and 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The System's more significant accounting policies are described below:

Reporting Entity - The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the City of Kalamazoo Employees' Retirement System. The City of Kalamazoo is the plan sponsor of the City of Kalamazoo Employees' Retirement System. As a result, industry standards require the City to include the financial activities of the System in the City's Annual Financial Report. The Annual Financial Report of the City of Kalamazoo is available for public inspection at the Kalamazoo City Hall.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City'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 - 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. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the Board with the assistance of a valuation service.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of Investments (continued) - The investments of the System are pooled with those of the City's Other Post-Employment Benefits (OPEB) Trust and the Central County Transportation Authority (CCTA). The purchases, maturities, and investment performance are allocated between the System, the OPEB Trust fund, and the CCTA based on the fair value of their respective investments. As of December 31, 2021, and 2020, the System's investments represented approximately 83.3% and 83.4% of the portfolio, respectively.

Administration - Administrative costs are financed through the System's investment earnings.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statements of plan net position include cash and short-term investments in money market accounts held by the System's investment managers. These accounts are insured by the Securities Investors Protection Corporation for up to \$500,000 each. The balances of these accounts as of December 31, 2021 and 2020, were \$445,370 and \$257,258, respectively. These amounts were fully insured as of December 31, 2021 and 2020, respectively.

Investments

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The System's Investment Committee is responsible for recommending to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries, and other fiduciaries utilized by the System. The City Commission is responsible for approving the recommendations of the Investment Committee. All investment decisions are subject to Michigan law and the investment policy established by the City Commission.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

The adopted asset allocation policy as of December 31, 2021 and 2020, was as follows:

Asset Class	Target	Long Term Expected Rate of Return	
		2021	2020
U.S. Small Cap (Manager 1)	5.00%	4.12%	4.78%
U.S. Small Cap (Manager 2)	10.00%	4.12%	4.78%
International Developed Equity	10.00%	3.42%	4.08%
U.S. Large Cap (Manager 1)	30.00%	3.62%	4.28%
U.S. Large Cap (Manager 2)	5.00%	3.62%	4.28%
Emerging Markets	10.00%	5.22%	7.18%
Domestic Fixed Income	25.00%	-0.88%	-0.92%
Real Estate (Manager 1)	2.50%	1.82%	2.28%
Real Estate (Manager 2)	2.50%	1.82%	2.28%

The System's investments are held in nine portfolios administered by five investment managers. Following is a summary of the System's investments as of December 31:

	2021	2020
U.S. Treasuries	\$ 74,969,240	\$ 50,101,613
Corporate bonds	66,248,053	76,612,417
Municipal bonds	224,796	268,419
Collateralized mortgage obligations	53,832,242	43,683,461
Equity mutual funds	564,024,705	494,344,812
Real estate mutual funds	42,992,624	34,971,535
Total investments	<u>\$ 802,291,660</u>	<u>\$ 699,982,257</u>

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

As of December 31, 2021 and 2020, the carrying amounts and fair values for each investment are as follows:

<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan	\$ -	\$ 18,193,367	\$ -	\$ 18,193,367
Fannie Mae	-	35,176,838	-	35,176,838
Ginnie Mae	-	462,037	-	462,037
U.S. Treasury Notes	-	74,969,240	-	74,969,240
Corporate Bonds	-	66,248,053	-	66,248,053
Municipal Bonds	-	224,796	-	224,796
Equity mutual funds	564,024,705	-	-	564,024,705
Real estate mutual funds	42,992,624	-	-	42,992,624
	<u>\$ 607,017,329</u>	<u>\$ 195,274,331</u>	<u>\$ -</u>	<u>\$ 802,291,660</u>

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements (continued)

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan	\$ -	\$ 10,592,791	\$ -	\$ 10,592,791
Fannie Mae	-	26,030,927	-	26,030,927
Ginnie Mae	-	7,059,743	-	7,059,743
U.S. Treasury Notes	-	50,101,613	-	50,101,613
Corporate Bonds	-	76,612,417	-	76,612,417
Municipal Bonds	-	268,419	-	268,419
Equity mutual funds	494,344,812	-	-	494,344,812
Real estate mutual funds	34,971,535	-	-	34,971,535
	<u>\$ 529,316,347</u>	<u>\$ 170,665,910</u>	<u>\$ -</u>	<u>\$ 699,982,257</u>

Custodial Credit Risk

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

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Credit Risk

The System's investment policy provides that its investments in bonds must be rated in the top four major investment grades as determined by two nationally recognized statistical rating organizations. As of December 31, 2021 and 2020, the System's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

<u>Standard & Poor's</u>	2021			2020		
	Corporate Bonds	Municipal Bonds	CMO	Corporate Bonds	Municipal Bonds	CMO
AAA	\$ 3,502,182	\$ 224,796	\$ -	\$ 6,149,020	\$ 268,419	\$ -
AA	8,437,361	-	53,832,242	11,427,890	-	43,683,461
A	22,474,547	-	-	26,059,935	-	-
BBB	31,381,480	-	-	31,355,283	-	-
Not rated	452,483	-	-	1,620,289	-	-
	<u>\$ 66,248,053</u>	<u>\$ 224,796</u>	<u>\$ 53,832,242</u>	<u>\$ 76,612,417</u>	<u>\$ 268,419</u>	<u>\$ 43,683,461</u>
<u>Moody's</u>						
Aaa	\$ 4,445,767	\$ 224,796	\$ 53,832,242	\$ 8,929,303	\$ 268,419	\$ 43,683,461
Aa	6,875,553	-	-	8,899,104	-	-
A	28,882,777	-	-	35,679,192	-	-
Baa	24,300,195	-	-	20,947,286	-	-
Ba	191,292	-	-	54,804	-	-
Not rated	1,552,469	-	-	2,102,728	-	-
	<u>\$ 66,248,053</u>	<u>\$ 224,796</u>	<u>\$ 53,832,242</u>	<u>\$ 76,612,417</u>	<u>\$ 268,419</u>	<u>\$ 43,683,461</u>

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk

The System's investment policy requires that the securities of any one company or government agency should not exceed 5% of the total fund. At December 31, 2021 and 2020, the System's investments were within that range.

The System's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of December 31, 2021 and 2020, the System's equity holdings accounted for 70% of the total investment portfolio; the System's holdings in real estate were 5% at December 31, 2021 and 2020.

Rate of Return

For the year ended December 31, 2021 and 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.36% and 8.71%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Interest Rate Risk

For investments, the risk that changes in interest rates will adversely affect the fair value of the investment is known as interest rate risk. The System's investment policy does not address interest rate risk. As of December 31, 2021 and 2020, maturities of the System's debt securities were as follows:

<u>2021</u>	Fair Value	Investment Maturities (fair value by years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 74,969,240	\$ -	\$ 23,426,867	\$ 34,158,259	\$ 17,384,114
Corporate Bonds	66,248,053	858,112	25,151,994	16,192,064	24,045,883
Municipal Bonds	224,796	-	-	-	224,796
Collateralized Mortgage Obligations	53,832,242	-	1,333,702	404,425	52,094,115
	<u>\$ 195,274,331</u>	<u>\$ 858,112</u>	<u>\$ 49,912,563</u>	<u>\$ 50,754,748</u>	<u>\$ 93,748,908</u>

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk (continued)

<u>2020</u>	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasuries	\$ 50,101,613	\$ -	\$ 23,123,122	\$ 14,357,492	\$ 12,620,999
Corporate Bonds	76,612,417	2,504,705	31,381,649	19,630,346	23,095,717
Municipal Bonds	268,419	-	-	-	268,419
Collateralized Mortgage Obligations	43,683,461	-	1,334,470	435,648	41,913,343
	<u>\$ 170,665,910</u>	<u>\$ 2,504,705</u>	<u>\$ 55,839,241</u>	<u>\$ 34,423,486</u>	<u>\$ 77,898,478</u>

Derivatives

The System's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the System's exposure to credit, market, and legal risk.

The portfolios managed by Jennison Associates have utilized U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At December 31, 2021 and 2020, the portfolio had no U.S. currency futures contracts.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's exposure to foreign currency risk derives from its positions in foreign currency-denominated fixed-income investments. The System's investment policy permits it to invest up to 10% of total investments in foreign currency-denominated investments.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Foreign Currency Risk (continued)

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2021 and 2020, is summarized below:

<u>Currency</u>	<u>2021</u>	<u>2020</u>
Canadian Dollar	\$ 430,509	\$ 462,697
Euro	1,579,142	1,846,995
Norwegian Krone	1,432,348	1,491,532
British Pound Sterling	<u>1,897,408</u>	<u>2,942,693</u>
	<u><u>\$ 5,339,407</u></u>	<u><u>\$ 6,743,917</u></u>

NOTE 4 - RESERVES

Member Contributions

Members contribute at rates stated in the City Ordinance or collective bargaining agreements for the applicable unit. Interest is credited at least annually to the reserve for member contributions. The balance represents active members' contributions and interest, less amounts transferred to funds for retirement, amounts refunded to terminated members, and transferred inactive accounts.

Employer Contributions

All employer contributions are credited to the reserve for employer contributions. Interest is credited at least annually, and transfers are made to the reserve for retired benefit payments to fund the employer's share of retirement allowances, as recommended by the System's actuaries and approved by the Board of Commissioners.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RESERVES (continued)

Retired Benefit Payments

The reserve represents the reserves for payment of future retirement benefits to persons already on the retirement rolls. At retirement, a member's accumulated contributions (with interest) are transferred to the reserve for retired benefit payments from the reserves for employer contributions and member contributions. Interest is credited at least annually.

The reserve balances as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Member contributions	\$ 27,505,717	\$ 26,891,255
Employer contributions	380,043,655	286,141,167
DROP contributions	121,743	286,645
Retired benefit payments	<u>398,253,680</u>	<u>391,257,716</u>
Total reserves	<u><u>\$ 805,924,795</u></u>	<u><u>\$ 704,576,783</u></u>

NOTE 5 - PENSION BENEFITS

During 2001, the City Ordinance was amended to provide for a supplemental benefits payment to certain retirees. Subject to certain limitations as described in the Ordinance, these payments may occur every third year commencing in 2001. \$249,718 was paid in 2021 and no amount was paid in 2020.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - ADMINISTRATIVE AND INVESTMENT EXPENSES

The following provides additional details related to administrative and investment expenses for the years ended December 31, 2021 and 2020:

	2021		2020	
	Amount	Percent of Net Position	Amount	Percent of Net Position
Investment advisor fees	\$ 1,981,792	0.246%	\$ 1,825,825	0.259%
Trust and custodial fees	232,538	0.029%	252,181	0.036%
Administrative expenses	236,148	0.029%	224,903	0.032%
Other expenses	333,861	0.041%	309,797	0.044%
	<u>\$ 2,784,339</u>		<u>\$ 2,612,706</u>	

NOTE 7 - RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors, and omissions. The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance amounts in excess of aggregate loss funds. The City 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 System that would require a liability to be recorded in the financial statements.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - NET PENSION ASSET

The components of the net pension asset of the System at December 31, 2021 and 2020, were as follows:

	2021	2020
TOTAL PENSION LIABILITY		
Service cost	\$ 7,116,766	\$ 7,038,828
Interest	36,676,997	36,008,134
Changes of benefit terms	-	875,728
Differences between expected and actual experience	4,367,838	(2,647,268)
Benefit payments, including refunds of member contributions	<u>(33,064,845)</u>	<u>(31,112,544)</u>
 NET CHANGE IN TOTAL PENSION LIABILITY	 15,096,756	 10,162,878
 TOTAL PENSION LIABILITY, BEGINNING	 <u>518,863,651</u>	 <u>508,700,773</u>
 TOTAL PENSION LIABILITY, ENDING (A)	 <u><u>\$ 533,960,407</u></u>	 <u><u>\$ 518,863,651</u></u>
 PLAN FIDUCIARY NET POSITION		
Contributions - member	\$ 1,345,658	\$ 1,285,845
Net investment income	133,637,208	57,798,914
Benefit payments, including refunds of member contributions	(33,064,845)	(31,112,544)
Administrative expenses	(236,148)	(224,903)
Other	<u>(333,861)</u>	<u>(309,797)</u>
 NET CHANGE IN PLAN FIDUCIARY NET POSITION	 101,348,012	 27,437,515
 PLAN FIDUCIARY NET POSITION, BEGINNING	 <u>704,576,783</u>	 <u>677,139,268</u>
 PLAN FIDUCIARY NET POSITION, ENDING (B)	 <u><u>\$ 805,924,795</u></u>	 <u><u>\$ 704,576,783</u></u>
 SYSTEM'S NET PENSION (ASSET), ENDING (A)-(B)	 <u><u>\$ (271,964,388)</u></u>	 <u><u>\$ (185,713,132)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 150.93%	 135.79%
 Covered payroll	 \$ 39,983,168	 \$ 39,215,899
 System's net pension (asset) as a percentage of covered payroll	 (680.20)%	 (473.57)%

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - NET PENSION ASSET (continued)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total pension liability was determined by actuarial valuations as of December 31, 2020 and 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation as of December 31, 2020 and measurement date of December 31, 2021:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open period
Remaining amortization period	10 years
Asset valuation method	5 years smoothed market
Inflation	3.5% (which includes price inflation of 2.25%)
Projected salary increases	3.5% to 15.50% (includes inflation)
Investment rate of return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality rates	The Pub-2010 Amount-Weighted, Safety, Employee, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.

The actuarial assumptions used in the December 31, 2020, valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - NET PENSION ASSET (continued)

Actuarial Assumptions (continued)

Actuarial valuation as of December 31, 2019 and measurement date of December 31, 2020:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open period
Remaining amortization period	10 years
Asset valuation method	5 years smoothed market
Inflation	3.5% (which includes price inflation of 2.25%)
Projected salary increases	3.5% to 15.50% (includes inflation)
Investment rate of return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality rates	The Pub-2010 Amount-Weighted, Safety, Employee, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for the actuarial valuations as of December 31, 2020 and December 31, 2019. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these 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.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - NET PENSION ASSET (continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the System's net pension liability (asset), calculated using the discount rate, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>2021</u>			
Total pension liability	\$ 597,246,646	\$ 533,960,407	\$ 481,277,118
Plan fiduciary net position	<u>805,924,795</u>	<u>805,924,795</u>	<u>805,924,795</u>
Net pension liability (asset)	<u><u>\$ (208,678,149)</u></u>	<u><u>\$ (271,964,388)</u></u>	<u><u>\$ (324,647,677)</u></u>
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>2020</u>			
Total pension liability	\$ 580,581,395	\$ 518,863,651	\$ 467,489,580
Plan fiduciary net position	<u>704,576,783</u>	<u>704,576,783</u>	<u>704,576,783</u>
Net pension liability (asset)	<u><u>\$ (123,995,388)</u></u>	<u><u>\$ (185,713,132)</u></u>	<u><u>\$ (237,087,203)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION ASSET AND RELATED RATIOS
LAST EIGHT FISCAL YEARS (ULTIMATELY TEN FISCAL YEARS WILL BE DISPLAYED)**

	2021	2020	2019	2018	2017	2016	2015	2014
CHANGE IN TOTAL PENSION LIABILITY								
Service cost	\$ 7,116,766	\$ 7,038,828	\$ 6,377,103	\$ 5,894,750	\$ 5,604,960	\$ 5,683,351	\$ 6,187,334	\$ 6,259,728
Interest	36,676,997	36,008,134	34,448,827	33,674,057	32,746,676	33,892,669	32,334,356	31,603,299
Changes of benefit terms	-	875,728	-	279,702	-	(23,809,450)	-	-
Difference between expected and actual experience	4,367,838	(2,647,268)	4,007,357	313,218	3,079,970	(2,513,167)	(1,574,739)	-
Changes of assumptions	-	-	22,845,295	-	-	-	12,509,343	-
Benefit payments, including refunds of member contributions	(33,064,845)	(31,112,544)	(30,213,896)	(29,931,417)	(28,491,380)	(28,496,870)	(28,356,700)	(27,802,129)
NET CHANGE IN TOTAL PENSION LIABILITY	15,096,756	10,162,878	37,464,686	10,230,310	12,940,226	(15,243,467)	21,099,594	10,060,898
TOTAL PENSION LIABILITY, BEGINNING	518,863,651	508,700,773	471,236,087	461,005,777	448,065,551	463,309,018	442,209,424	432,148,526
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 533,960,407</u>	<u>\$ 518,863,651</u>	<u>\$ 508,700,773</u>	<u>\$ 471,236,087</u>	<u>\$ 461,005,777</u>	<u>\$ 448,065,551</u>	<u>\$ 463,309,018</u>	<u>\$ 442,209,424</u>
CHANGE IN PLAN FIDUCIARY NET POSITION								
Contributions - employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,602,053	\$ 760,912
Contributions - member	1,345,658	1,285,845	1,238,420	1,209,623	1,086,257	1,085,940	1,084,798	1,067,029
Net investment income (loss)	133,637,208	57,798,914	112,193,170	(47,440,721)	94,301,279	72,939,990	(9,974,517)	41,065,447
Benefit payments, including refunds of member contributions	(33,064,845)	(31,112,544)	(30,213,896)	(29,931,417)	(28,491,380)	(28,496,870)	(28,356,700)	(27,802,131)
Administrative expenses	(236,148)	(224,903)	(220,934)	(147,100)	(147,099)	(153,024)	(125,770)	(122,107)
Other	(333,861)	(309,797)	(228,905)	(246,932)	(8,848,472)	(21,875,722)	(174,885)	(110,326)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	101,348,012	27,437,515	82,767,855	(76,556,547)	57,900,585	23,500,314	(35,945,021)	14,858,824
PLAN FIDUCIARY NET POSITION, BEGINNING	704,576,783	677,139,268	594,371,413	670,927,960	613,027,375	589,527,061	625,472,082	610,613,258
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 805,924,795</u>	<u>\$ 704,576,783</u>	<u>\$ 677,139,268</u>	<u>\$ 594,371,413</u>	<u>\$ 670,927,960</u>	<u>\$ 613,027,375</u>	<u>\$ 589,527,061</u>	<u>\$ 625,472,082</u>
SYSTEM'S NET PENSION (ASSET), ENDING (A)-(B)	<u>\$ (271,964,388)</u>	<u>\$ (185,713,132)</u>	<u>\$ (168,438,495)</u>	<u>\$ (123,135,326)</u>	<u>\$ (209,922,183)</u>	<u>\$ (164,961,824)</u>	<u>\$ (126,218,043)</u>	<u>\$ (183,262,658)</u>
Plan fiduciary net position as a percentage of the total pension liability	150.93%	135.79%	133.11%	126.13%	145.54%	136.82%	127.24%	141.44%
Covered payroll	\$ 39,983,168	\$ 39,215,899	\$ 37,425,219	\$ 34,999,543	\$ 32,780,965	\$ 37,291,474	\$ 37,198,788	\$ 36,331,892
System's net pension (asset) as a percentage of covered payroll	(680.20)%	(473.57)%	(450.07)%	(351.82)%	(640.38)%	(442.36)%	(339.31)%	(504.41)%

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	1,602,053	760,912	905,746	905,746
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,602,053)</u>	<u>\$ (760,912)</u>	<u>\$ (905,746)</u>	<u>\$ 905,746</u>
Covered payroll	\$ 39,983,168	\$ 39,215,899	\$ 37,425,219	\$ 34,999,543	\$ 32,780,965	\$ 37,291,474	\$ 37,198,788	\$ 36,331,892	\$ 36,539,969	\$ 42,305,663
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.31%	2.09%	2.48%	2.14%

Actuarial valuation information relative to the determination of contributions:

Valuation date

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open period
Remaining amortization period	10 years
Asset valuation method	5- year smoothed market
Inflation	3.5% (which includes price inflation of 2.25%)
Salary increases	3.5% to 15.50% including inflation
Investment rate of return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality rates	The Pub-2010 Amount-Weighted, Safety, Employee, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.

**CITY OF KALAMAZOO, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
LAST EIGHT FISCAL YEARS (ULTIMATELY TEN FISCAL YEARS WILL BE DISPLAYED)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	19.36%	8.71%	19.30%	(7.22)%	15.72%	12.64%	(1.62)%	6.82%