

**City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund**

FINANCIAL STATEMENTS

December 31, 2017 and 2016

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

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INDEPENDENT AUDITOR'S REPORT

To the Trustee of the Other Post-
Employment Benefits Trust Fund
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying statement of plan net position of the City of Kalamazoo Other Post-Employment Benefits Trust Fund (the "Plan"), as of December 31, 2017, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the City of Kalamazoo Other Post-Employment Benefits Trust Fund as of December 31, 2017, and the respective changes in its plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note B, the financial statements present only the City of Kalamazoo Other Post-Employment Benefits Trust Fund and do not purport to, and do not present fairly the financial position of the City of Kalamazoo, Michigan, as of December 31, 2017 and 2016, 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.

Change in Accounting Principles

As described in Note H to the financial statements, the Plan implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, during the year. The statement improves the usefulness of information about other postemployment benefits (OPEB) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability. Our opinion is not modified with respect to this matter.

Report on Comparative Information

The comparative information presented herein as of and for the year ended December 31, 2016, was derived from financial statements that were audited by other auditors whose report dated June 28, 2017, expressed an unmodified opinion on those statements.

Other Matter

Required Supplementary Information

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

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

June 27, 2018

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

The following is a discussion and analysis of the financial performance and position of the City of Kalamazoo Other Post-Employment Benefits (OPEB) Trust Fund (OPEB Trust Fund or the Plan). It is intended to provide an overview of the OPEB Trust Fund's financial activities for the fiscal years ended December 31, 2017 and 2016. 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 highlights key financial information in a condensed format for the current year and the prior years:

	Year Ended December 31,		
	2017	2016	2015
Total assets	\$ 105,162,435	\$ 96,311,620	\$ 91,121,627
Total liabilities	931,169	932,542	730,978
Net position restricted for OPEB benefits	<u>\$ 104,231,266</u>	<u>\$ 95,379,078</u>	<u>\$ 90,390,649</u>
Net investment income (loss)	\$ 14,711,769	\$ 10,985,290	\$ (1,485,952)
Contributions	<u>4,420,121</u>	<u>4,385,073</u>	<u>92,200,393</u>
Total additions	19,131,890	15,370,363	90,714,441
Benefits paid	10,178,780	10,284,889	9,601,929
General and administrative expenses	<u>100,922</u>	<u>97,045</u>	<u>44,320</u>
Total deductions from net position	<u>10,279,702</u>	<u>10,381,934</u>	<u>9,646,249</u>
Net increase in net position restricted for OPEB	8,852,188	4,988,429	81,068,192
Net position restricted for OPEB benefits			
Beginning of Year	<u>95,379,078</u>	<u>90,390,649</u>	<u>9,322,457</u>
End of Year	<u>\$ 104,231,266</u>	<u>\$ 95,379,078</u>	<u>\$ 90,390,649</u>

Overall Fund Structure and Objectives

The OPEB Trust Fund is a cost sharing multiple-employer defined benefit other post-employment benefit plan. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Active members earn service credit that entitles them to receive benefits in the future. Plan members are expected to contribute 0.5% of their annual covered payroll. The employers contribute such amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits.

The employers were required to make Annual Required Contributions (ARC) of \$7,610,363 for 2017, and the City was required to make ARC of \$6,728,006 for 2016. The excess of benefits over contributions is funded through investment income. The OPEB Trust Fund 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.

At least biennially, an actuarial valuation of the OPEB Trust Fund is completed. As of the January 1, 2017, actuarial report, the valuation of assets represented 57.4 percent of accrued liabilities. As of the January 1, 2016, actuarial report, the valuation of assets represented 60.4 percent of accrued liabilities.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

Asset Allocation

It is the responsibility of the Trustee of the OPEB Trust Fund to adopt investment policies and strategies, and to select advisors, actuaries and other fiduciaries utilized by the OPEB Trust Fund.

The OPEB Trust Fund's purpose is to provide long-term benefit payments to its members through long-term investing. This is accomplished by investing OPEB assets in a "group trust" with Pension assets, to access the best long-term gains with the lowest cost. This commingled approach leverages the Pension's Retirement Investment Committee's (the RIC) 30 year history of positive investment returns for the Pension System, which has positioned the Pension System's portfolio to realize stable long-term objectives. The employers hope to achieve stability for the OPEB Trust Fund assets as well through the same level of applied wisdom, prudence, skill, and discipline.

To 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 RIC has established the following asset allocation for the Pension System, which due to the commingling of Pension and OPEB investments in the group trust, is effectively the asset allocation for the OPEB Trust Fund as well:

<u>Asset Class</u>	<u>Target</u>
Micro Capitalization Domestic Equity	5.00%
Small Capitalization Domestic Equity	10.00%
Small Capitalization Value International Equity	10.00%
S&P Index Funds	30.00%
Large Capitalization Domestic Equity	5.00%
Emerging Markets Equity	10.00%
Intermediate Fixed Income	12.50%
Long Fixed Income	12.50%
Real Estate Securities	2.50%
Real Estate	2.50%

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 OPEB Trust Fund's investments are held in nine portfolios administered by five investment managers.

Economic Factors, Investment Returns, and Other Important Matters

The City has implemented several strategies to manage and contain retiree healthcare costs and the OPEB liability. At the close of 2014, the City Commission authorized the City Administration to issue \$90 million of fixed interest rate bonds to assist in covering a significant portion of the retiree healthcare liability. This was executed in January of 2015. The City entered into Memoranda of Understanding with each of the City's collective bargaining units, which pledges the City to a fixed contribution of \$3.5 million per year, which is estimated to fully fund the City's OPEB liability over the next 30 years. In exchange, the collective bargaining units have pledged to work collaboratively with the City to develop healthcare cost containment strategies. The City offered an incentive to legacy retirees on fixed healthcare plans to participate fully in Medicare Part B. Almost half of the eligible retirees have accepted this incentive by the end of 2017, which will save the City hundreds of thousands of dollars per year.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

The City's Group Trust, which contains the City's Pension, the Central County Transportation Authority's (CCTA) Pension, and OPEB investment assets, had strong years in both 2016 and 2017. The investment portfolio for the OPEB Trust reported a net return of 15.83% for fiscal year 2017, which was an increase over the 12.75% net return in 2016. Equities provided the largest gains, returning 21.32%, while both Fixed Income and Real Estate showed more modest returns of 3.57% and 5.66%, respectively. The net position of the trust at year end was approximately \$105 million, an increase of \$9 million from fiscal year 2016.

Contacting the OPEB Trust Fund's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of the OPEB Trust Fund's financial position. If you have questions about this report or need additional financial information, contact Jim Ritsema, City Manager, City of Kalamazoo, 241 W. South Street, Kalamazoo, MI 49007, (269) 337-8468.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

STATEMENTS OF PLAN NET POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 31,705	\$ 112,035
Receivables		
Interest and dividends	167,032	183,822
Investments sold	263,889	-
Total receivables	430,921	183,822
Investments, at fair value		
U.S. Treasuries	12,781,502	11,915,782
U.S. Agencies	228,552	202,067
Corporate bonds	9,273,954	9,682,042
Collateralized mortgage obligations	2,789,356	3,088,127
Equity mutual funds	74,543,592	66,103,708
Real estate mutual funds	5,082,853	5,024,037
Total investments	104,699,809	96,015,763
Total assets	105,162,435	96,311,620
LIABILITIES		
Accounts payable	931,169	932,542
NET POSITION		
Net position restricted for other post-employment benefits	\$ 104,231,266	\$ 95,379,078

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

STATEMENTS OF CHANGES IN PLAN NET POSITION

Years Ended December 31, 2017 and 2016

	2017	2016
ADDITIONS TO NET POSITION		
Investment income (loss)		
Change in fair value of investments	\$ 11,967,187	\$ 8,701,106
Interest	651,990	562,642
Dividends	2,424,137	1,995,627
Total investment income	15,043,314	11,259,375
Less: investment expense	(331,545)	(274,085)
Net investment income	14,711,769	10,985,290
Contributions		
Employer	3,500,000	3,500,000
Plan members	920,121	885,073
Total contributions	4,420,121	4,385,073
Total additions to net position	19,131,890	15,370,363
DEDUCTIONS FROM NET POSITION		
Benefits	10,178,780	10,284,889
Administrative expenses	100,922	97,045
Total deductions from net position	10,279,702	10,381,934
CHANGE IN PLAN NET POSITION	8,852,188	4,988,429
Net position - beginning of year	95,379,078	90,390,649
Net position - end of year	\$ 104,231,266	\$ 95,379,078

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A: PLAN DESCRIPTION

Plan Administration

The City of Kalamazoo Other Post-Employment Benefits (OPEB) Trust Fund (herein after referred to as the “Plan” or “OPEB Trust Fund”) is a cost sharing multiple-employer defined benefit other post-employment benefits plan. The OPEB Trust Fund is administered by the City of Kalamazoo Other Post-Employment Benefits Trust Fund Trustee. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the respective employers. Plan benefit provisions were established and may be amended under the authority of the respective employers.

The Plan was previously reported as a single-employer defined benefit other post-employment benefits plan. Effective September 30, 2016, the Kalamazoo Metro Transit System ceased operations. All operational and financial responsibility, as well as all assets and liabilities, of the Kalamazoo Metro Transit System were assumed by the Central County Transportation Authority (CCTA). CCTA is a component unit of Kalamazoo County. Retiree health care coverage for the CCTA group continued under the City plan. Therefore, the Plan is now reported as a cost sharing multiple-employer defined benefit other post-employment benefits plan.

Plan Membership

Plan membership consisted of the following at January 1, 2017 and 2016, according to actuarial valuations as of those dates:

	<u>2017</u>	<u>2016</u>
Retirees and beneficiaries	963	950
Active plan members	<u>378</u>	<u>414</u>
Total	<u><u>1,341</u></u>	<u><u>1,364</u></u>
Number of participating employers	2	1

Benefits Provided

The Plan provides medical insurance benefits to eligible retirees and their spouses. The Plan purchases Medicare supplemental insurance for retirees eligible for Medicare. In addition to the healthcare benefits described above, the Plan provides a death benefit of \$1,000 to all eligible retirees.

Contributions

Plan members are expected to contribute 0.5% of their annual covered payroll to the Plan. The employers are required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. In 2017, the annual required contributions for the employers were \$7,610,636 and in 2016, the annual required contributions for the City were \$6,728,006.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Plan'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 Other Post-Employment Benefits Trust Fund. The City of Kalamazoo is the plan sponsor of the OPEB Trust Fund. As a result, industry standards require the City to include the financial activities of the OPEB Trust Fund 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 Plan'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 employers' 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 Trustee with the assistance of a valuation service.

The investments of the Plan are pooled with those of the City of Kalamazoo Employees' Retirement System and the Central County Transportation Authority (CCTA) Pension Plan. The purchases, maturities, and investment performance are allocated between the Plan, the City of Kalamazoo Employees' Retirement System, and CCTA Pension Plan based on the fair value of their respective investments. As of December 31, 2017 and 2016, the Plan's investments represented approximately 13.0 percent and 13.2 percent of the portfolio, respectively.

Administration - Administrative costs are financed through the Plan'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 C: DEPOSITS AND INVESTMENTS

Deposits

The Plan does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net position include cash and short-term investments in money market accounts held by the Plan's investment managers. These accounts are insured by the Securities Investors Protection Corporation for up to \$500,000 each. The balance of these accounts as of December 31, 2017 and 2016, were \$31,705 and \$112,035, respectively. These amounts were fully insured during 2017 and 2016.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

Investments

The Michigan Public Employees Retirement System Investment Act, Public Act 314 of 1965, as amended, authorizes the Plan to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Plan's Trustee is responsible for recommending to the respective governing bodies the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the Plan. The respective governing bodies are responsible for approving the recommendations of the Plan's Trustee. All investment decisions are subject to Michigan law and the investment policy established by the respective governing bodies. As OPEB Trust Fund and Employees' Retirement System assets are commingled for investment purposes, the Plan's Trustee has adopted the policies, strategies, and approaches used by the Employees' Retirement System's Investment Committee.

The adopted asset allocation policy as of December 31, 2017 and 2016, was as follows:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Rate of Return</u>
Micro Capitalization Domestic Equity	5.00%	4.60%
Small Capitalization Domestic Equity	10.00%	4.60%
Small Capitalization Value International Equity	10.00%	4.10%
S&P Index Funds	30.00%	4.10%
Large Capitalization Domestic Equity	5.00%	4.20%
Emerging Markets Equity	10.00%	6.60%
Intermediate Fixed Income	12.50%	1.00%
Long Fixed Income	12.50%	1.00%
Real Estate Securities	2.50%	2.90%
Real Estate	2.50%	2.90%

The Plan's investments are held in nine (9) portfolios administered by five (5) investment managers. Following is a summary of the Plan's investments as of December 31:

	<u>2017</u>	<u>2016</u>
U.S. Treasuries	\$ 12,781,502	\$ 11,915,782
U.S. Agencies	228,552	202,067
Corporate bonds	9,273,954	9,682,042
Collateralized mortgage obligations	2,789,356	3,088,127
Equity mutual funds	74,543,592	66,103,708
Real estate mutual funds	5,082,853	5,024,037
Total investments	<u>\$ 104,699,809</u>	<u>\$ 96,015,763</u>

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C: 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 (3) 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, 2017 and 2016, the carrying amounts and fair values for each investment are as follows:

<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Strips	\$ 228,552	\$ -	\$ -	\$ 228,552
Federal Home Loan	23,503	-	-	23,503
Fannie Mae	2,765,853	-	-	2,765,853
U.S. Treasury Notes	12,781,502	-	-	12,781,502
Corporate Bonds	-	9,273,954	-	9,273,954
Equity mutual funds	74,543,592	-	-	74,543,592
Real estate mutual funds	5,082,853	-	-	5,082,853
	<u>\$ 95,425,855</u>	<u>\$ 9,273,954</u>	<u>\$ -0-</u>	<u>\$ 104,699,809</u>
<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Strips	\$ 202,067	\$ -	\$ -	\$ 202,067
Federal Home Loan	29,906	-	-	29,906
Fannie Mae	3,058,221	-	-	3,058,221
U.S. Treasury Notes	11,915,782	-	-	11,915,782
Corporate Bonds	-	9,682,042	-	9,682,042
Equity mutual funds	66,103,708	-	-	66,103,708
Real estate mutual funds	5,024,037	-	-	5,024,037
	<u>\$ 86,333,721</u>	<u>\$ 9,682,042</u>	<u>\$ -0-</u>	<u>\$ 96,015,763</u>

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

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. The Plan's investment policy does not address custodial credit risk. 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 in the Plan'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.

Credit Risk

The Plan's investment policy provides that its investments in bonds must be rated in the top four (4) major investment grades as determined by two (2) nationally recognized statistical rating organizations. As of December 31, 2017 and 2016, the Plan's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

Standard & Poor's	2017			2016		
	U.S. Agencies	Corporate Bonds	CMO	U.S. Agencies	Corporate Bonds	CMO
AAA	\$ -	\$ 711,108	\$ -	\$ -	\$ 1,009,439	\$ -
AA	-	970,041	2,789,356	-	1,143,061	3,088,127
A	-	4,413,150	-	-	3,710,494	-
BBB	-	3,097,500	-	-	3,713,743	-
Not rated	228,552	82,155	-	202,067	105,305	-
	<u>\$ 228,552</u>	<u>\$ 9,273,954</u>	<u>\$ 2,789,356</u>	<u>\$ 202,067</u>	<u>\$ 9,682,042</u>	<u>\$ 3,088,127</u>
<u>Moody's</u>						
Aaa	\$ -	\$ 234,857	\$ 2,789,356	\$ -	\$ 752,048	\$ 3,088,127
Aa	-	857,624	-	-	948,019	-
A	-	4,271,172	-	-	3,801,960	-
Baa	-	3,295,044	-	-	3,683,641	-
Not rated	228,552	615,257	-	202,067	496,374	-
	<u>\$ 228,552</u>	<u>\$ 9,273,954</u>	<u>\$ 2,789,356</u>	<u>\$ 202,067</u>	<u>\$ 9,682,042</u>	<u>\$ 3,088,127</u>

Concentration of Credit Risk

The Plan'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, 2017 and 2016, the Plan's investments were within that range.

The Plan'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, 2017 and 2016, the Plan's equity holdings accounted for 71% and 69%, respectively, of the total investment portfolio; the Plan's holdings in real estate were 5% at December 31, 2017 and 2016.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

Rate of Return

For the years ended December 31, 2017 and 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.81 percent and 12.64 percent, 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 Plan's investment policy does not address interest rate risk. As of December 31, 2017 and 2016, maturities of the Plan's debt securities were as follows:

2017	Fair Value	Investment Maturities (fair value by years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 12,781,502	\$ -	\$ 5,216,038	\$ 277,041	\$ 7,288,423
U.S. Agencies	228,552	-	-	-	228,552
Corporate Bonds	9,273,954	187,982	4,024,882	3,024,121	2,036,969
Collateralized Mortgage Obligations	2,789,356	1	-	-	2,789,355
	<u>\$ 25,073,364</u>	<u>\$ 187,983</u>	<u>\$ 9,240,920</u>	<u>\$ 3,301,162</u>	<u>\$ 12,343,299</u>
2016					
U.S. Treasuries	\$ 11,915,782	\$ -	\$ 6,260,662	\$ 874,532	\$ 4,780,588
U.S. Agencies	202,067	-	-	-	202,067
Corporate Bonds	9,682,042	287,571	3,505,323	3,735,118	2,154,030
Collateralized Mortgage Obligations	3,088,127	-	898	-	3,087,229
	<u>\$ 24,888,018</u>	<u>\$ 287,571</u>	<u>\$ 9,766,883</u>	<u>\$ 4,609,650</u>	<u>\$ 10,223,914</u>

Derivatives

The Plan'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 Plan's Trustee, in conjunction with the Employees' Retirement System's Investment Committee, monitors these reports to evaluate the Plan'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, 2017 and 2016, 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 Plan's exposure to foreign currency risk derives from its positions in foreign currency-denominated fixed-income investments. The Plan's investment policy permits it to invest up to 10 percent of total investments in foreign currency-denominated investments.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

Foreign Currency Risk - continued

The Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2017 and 2016, is summarized below:

Currency	2017	2016
Canadian Dollar	\$ 123,629	\$ 119,589
Euro	613,375	886,257
Norwegian Krone	24,584	24,741
British Pound Sterling	532,947	421,498
Mexican Peso	19,546	45,086
	\$ 1,314,081	\$ 1,497,171

NOTE D: ADMINISTRATIVE AND INVESTMENT EXPENSES

The following provides additional details related to administrative and investment expenses for the years ended December 31, 2017 and 2016:

	2017		2016	
	Amount	Percent of Net Position	Amount	Percent of Net Position
Investment advisor fees	\$ 331,545	0.318%	\$ 274,085	0.287%
Administrative expenses	100,922	0.097%	97,045	0.102%
	\$ 432,467		\$ 371,130	

NOTE E: RISK MANAGEMENT

The Plan is exposed to various risks of loss related to torts, errors and omissions. The Plan 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 Plan that would require a liability to be recorded in the financial statements.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F: FUNDED STATUS AND FUNDING PROGRESS

The Plan's funding policy provides for periodic contributions by the employers at actuarially determined rates expressed as a percentage of annual covered payroll. The employers are required to contribute at a rate of 17.4% of annual covered payroll. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The funded status of the Plan as of January 1, 2017 and 2016, the dates of the most recent actuarial valuations, were as follows:

	2017	2016
Actuarial value of assets	\$ 95,305,474	\$ 94,643,208
Actuarial accrued liability (AAL)	166,056,971	156,809,472
Underfunded AAL (UAAL)	\$ (70,751,497)	\$ (62,166,264)
Funded ratio	57.4%	60.4%
Covered payroll	\$ 37,363,784	\$ 38,760,334
UAAL as % of covered payroll	189.4%	160.4%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities or benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as 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 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.

For the year ended December 31, 2017, the employers' annual OPEB costs were \$7,703,924 and for the year ended December 31, 2016, the City's annual OPEB costs were \$6,853,533. The estimated annual required contributions were determined as part of actuarial valuations at January 1, 2017 and 2016, using the individual entry age method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0.0% to 12.0% per year depending on age, seniority and merit, (d) the healthcare cost trend rate of 3.5% to 9.0%, and (e) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years on a closed basis.

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F: FUNDED STATUS AND FUNDING PROGRESS - CONTINUED

The computed contribution and actual funding are summarized as follows:

	Year Ended December 31, 2017	2016
Annual required contribution (ARC)	\$ 7,610,636	\$ 6,728,006
Interest on net OPEB obligation	(723,440)	(973,455)
Adjustment to annual required contribution	816,728	1,098,982
Annual OPEB cost	7,703,924	6,853,533
Contributions made	3,512,000	3,520,000
Decrease in net OPEB benefit	4,191,924	3,333,533
Net OPEB (benefit) - beginning of year	(9,645,871)	(12,979,404)
Net OPEB (benefit) - end of year	\$ (5,453,947)	\$ (9,645,871)

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, were as follows:

	2015	2016	2017
Annual OPEB cost	\$ 12,953,055	\$ 6,853,533	\$ 7,703,924
Percentage contributed	705.0%	51.3%	45.6%
Net OPEB obligation (benefit)	65,384,020	(9,645,871)	(5,453,947)

NOTE G: NET OPEB LIABILITY

The components of the net OPEB liability of the Plan at December 31, 2017, were as follows:

Total OPEB liability	\$ 237,505,296
Plan fiduciary net position	104,231,266
Net OPEB liability	\$ 133,274,030
Plan fiduciary net position as a percentage of the total OPEB liability	43.89%
Net OPEB liability as a percentage of covered payroll	356.69%

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G: NET OPEB LIABILITY - 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 includes 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 OPEB liability was determined by an actuarial valuation as of December 31, 2016, and a measurement date of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	5 years smoothed market
Inflation	3.50% (which includes price inflation of 2.75%)
Projected salary increases	3.50% to 15.50% (includes inflation)
Investment rate of return	7.5%, net of OPEB plan investment expense
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB, rates set-forward 7 years for disabled members
Health care trend rates	9.00% for the first year, gradually decreasing to 3.50% in year 10
Aging factors	Based on the 2013 SOA study "Health Care Costs - From Birth to Death"

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

Discount Rate

A single discount rate of 4.60 percent was used to measure the total OPEB liability. This single discount rate was based on an expected rate of return on OPEB plan investments of 7.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to \$3,500,000 per year. Based on these assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2035. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2035, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.60 percent) or 1-percentage-point higher (5.60 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 166,677,465</u>	<u>\$ 133,274,030</u>	<u>\$ 105,929,527</u>

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G: NET OPEB LIABILITY - CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.00 percent) or 1-percentage-point higher (10.00 percent) than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 101,786,181</u>	<u>\$ 133,274,030</u>	<u>\$ 172,016,816</u>

NOTE H: CHANGE IN ACCOUNTING PRINCIPLES

During the current year, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the other post-employment benefits plan. As a result, the net OPEB liability footnote has been added along with the related schedules in the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2017	\$ 95,305,474	\$ 166,056,971	\$ 70,751,497	57.4%	\$ 37,363,784	189.4%
1/1/2016	94,643,208	156,809,472	62,166,264	60.4%	38,760,334	160.4%
12/31/2013	6,931,353	194,792,158	187,860,805	3.6%	37,509,463	500.8%
12/31/2011	-	190,631,174	190,631,174	0.0%	44,227,533	431.0%
12/31/2009	-	263,181,931	263,181,931	0.0%	44,060,796	597.3%
12/31/2007	-	206,854,739	206,854,739	0.0%	45,214,897	457.5%

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2017	\$ 7,610,636	46%
2016	6,728,006	52%
2015	14,118,858	647%
2014	14,115,049	73%
2013	14,648,903	100%
2012	14,789,698	46%
2011	23,118,784	29%
2010	23,118,784	31%
2009	19,533,175	33%
2008	18,129,246	34%

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

SCHEDULE OF CHANGES IN THE PLAN'S NET OPEB LIABILITY AND RELATED RATIOS

Last Fiscal Year (ultimately ten fiscal years will be displayed)

	2017
CHANGE IN TOTAL OPEB LIABILITY	
Service cost	\$ 1,490,221
Interest	12,162,956
Difference between expected and actual experience	(45,814)
Changes of assumptions	67,099,621
Benefit payments, including refunds of member contributions	(9,258,659)
NET CHANGE IN TOTAL OPEB LIABILITY	71,448,325
TOTAL OPEB LIABILITY, BEGINNING	166,056,971
TOTAL OPEB LIABILITY, ENDING (A)	\$ 237,505,296
CHANGE IN PLAN FIDUCIARY NET POSITION	
Employer contributions	\$ 3,500,000
OPEB plan net investment income	14,711,769
Benefit payments, including refunds of member contributions	(9,258,659)
Administrative expenses	(100,922)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	8,852,188
PLAN FIDUCIARY NET POSITION, BEGINNING	95,379,078
PLAN FIDUCIARY NET POSITION, ENDING (B)	\$ 104,231,266
PLAN'S NET OPEB LIABILITY, ENDING (A)-(B)	\$ 133,274,030
Plan fiduciary net position as a percentage of the total OPEB liability	43.89%
Covered-employee payroll	\$ 37,363,784
Plan's net OPEB liability as a percentage of covered-employee payroll	356.69%

City of Kalamazoo, Michigan
Other Post-Employment Benefits Trust Fund

SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year (ultimately ten fiscal years will be displayed)

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	15.81%