

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND**

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

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018



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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 statements of plan net position of the City of Kalamazoo Other Post-Employment Benefits Trust Fund (the "Plan"), as of December 31, 2019 and 2018, and the related statement of changes in plan net position for the years 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2019 and 2018, 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.

Emphasis of a Matter

As discussed in Note 1, 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, 2019 and 2018, 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.

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.

Maney Costeiran PC

June 29, 2020

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2019 and 2018. 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,		
	2019	2018	2017
Total assets	\$ 102,869,919	\$ 92,094,162	\$ 105,162,435
Total liabilities	764,534	1,157,917	931,169
Net position restricted for OPEB benefits	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>
Net investment income (loss)	\$ 17,198,179	\$ (7,353,500)	\$ 14,711,769
Contributions	<u>4,478,010</u>	<u>4,470,429</u>	<u>4,420,121</u>
Total additions (reductions)	21,676,189	(2,883,071)	19,131,890
Benefits paid	10,343,706	10,304,964	10,178,780
General and administrative expenses	<u>163,343</u>	<u>106,986</u>	<u>100,922</u>
Total deductions from net position	<u>10,507,049</u>	<u>10,411,950</u>	<u>10,279,702</u>
Net change in net position restricted for OPEB	11,169,140	(13,295,021)	8,852,188
Net position restricted for OPEB benefits			
Beginning of Year	<u>90,936,245</u>	<u>104,231,266</u>	<u>95,379,078</u>
End of Year	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 insurance benefits to eligible retirees and their spouses. Active members earn service credit that entitles them to receive benefits in the future. 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 actuarially determined contributions (ADC) of \$8,012,819 for 2019, and \$8,111,777 for 2018. 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, 2019 actuarial report, the valuation of assets represented 56.3% of accrued liabilities. As of the January 1, 2018, actuarial report, the valuation of assets represented 55.8% of accrued liabilities.

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.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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'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 19.27% in 2019, which was a welcome turnaround from the -7.36% net return in 2018. Equities provided the greatest increase, returning 23.69% for the year, while Fixed Income returned a gain of 8.11%, and Real Estate had returns of 16.55%. The net position of the OPEB Trust at year end was approximately \$102 million, an increase of \$11 million from fiscal year 2018.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

In 2019, the US enjoyed near-record low unemployment, a strong labor market, and a surge in consumer spending. It also experienced a government shutdown, articles of impeachment against the president, and the effects of global trade conflicts. Additionally, the Federal Reserve lowered interest rates three times. Against this backdrop, US stocks soared to record highs in December. Global markets also experienced a stellar year in 2019, ending with a strong 4Q which resulted in the best returns in a decade. 2020 brings uncertainty to Global and US economies due to the COVID-19 pandemic, worldwide racial inequity protests, and the upcoming US presidential election.

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 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
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
STATEMENTS OF PLAN NET POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 111,883	\$ 16,492
Receivables		
Interest and dividends	133,852	154,163
Investments sold	316,382	37,867
Total receivables	450,234	192,030
Investments, at fair value		
U.S. Treasuries	6,918,492	11,685,581
Corporate bonds	8,498,006	8,830,480
Collateralized mortgage obligations	9,246,088	2,817,731
Equity mutual funds	72,597,598	63,668,690
Real estate mutual funds	5,047,618	4,883,158
Total investments	102,307,802	91,885,640
Total assets	102,869,919	92,094,162
LIABILITIES		
Accounts payable	764,534	1,157,917
NET POSITION		
Net position restricted for other post-employment benefits	\$ 102,105,385	\$ 90,936,245

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ADDITIONS TO NET POSITION		
Investment income (loss)		
Change in fair value of investments	\$ 15,120,819	\$ (9,956,988)
Interest	687,350	673,165
Dividends	1,695,928	2,273,698
	<u>17,504,097</u>	<u>(7,010,125)</u>
Total investment income (loss)		
	17,504,097	(7,010,125)
Less investment expense	<u>(305,918)</u>	<u>(343,375)</u>
Net investment income (loss)	17,198,179	(7,353,500)
Contributions		
Employer	3,500,000	3,500,000
Plan members	978,010	970,429
	<u>4,478,010</u>	<u>4,470,429</u>
Total contributions		
	4,478,010	4,470,429
Total additions (reductions) to net position	21,676,189	(2,883,071)
DEDUCTIONS FROM NET POSITION		
Benefits	10,343,706	10,304,964
Administrative expenses	163,343	106,986
	<u>10,507,049</u>	<u>10,411,950</u>
Total deductions from net position		
	10,507,049	10,411,950
CHANGE IN PLAN NET POSITION	11,169,140	(13,295,021)
Net position - beginning of year	<u>90,936,245</u>	<u>104,231,266</u>
Net position - end of year	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>

See accompanying notes to financial statements.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - 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.

Plan Membership

Plan membership based on actuarial valuations as of December 31, 2018 and 2017, and measurement dates of December 31, 2019 and 2018 consisted of the following:

	2019	2018
Retirees or beneficiaries receiving benefits	686	753
Inactive plan members entitled to but not yet receiving benefits	42	43
Active plan members	308	679
	1,036	1,475
Number of participating employers	2	2

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.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - PLAN DESCRIPTION (continued)

Contributions

The employers are required to contribute such amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. In 2019, the actuarially determined contributions for the employers were \$8,012,819 and in 2018, the actuarially determined contributions for the employers were \$8,111,777.

NOTE 2 - 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, 2019 and 2018, the Plan's investments represented approximately 12.6% and 12.9% of the portfolio, respectively.

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

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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, 2019 and 2018, were \$111,883 and \$16,492, respectively. These amounts were fully insured as of December 31, 2019 and 2018, respectively.

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.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

The adopted asset allocation policy as of December 31, 2019 and 2018, was as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	
		2019	2018
Micro Capitalization Domestic Equity	5.00%	4.87%	4.60%
Small Capitalization Domestic Equity	10.00%	4.87%	4.60%
Small Capitalization Value International Equity	10.00%	5.37%	4.10%
S&P Index Funds	30.00%	4.37%	4.10%
Large Capitalization Domestic Equity	5.00%	4.37%	4.20%
Emerging Markets Equity	10.00%	7.87%	6.60%
Intermediate Fixed Income	12.50%	0.57%	1.00%
Long Fixed Income	12.50%	0.57%	1.00%
Real Estate Securities	2.50%	2.77%	2.90%
Real Estate	2.50%	2.77%	2.90%

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

	2019	2018
U.S. Treasuries	\$ 6,918,492	\$ 11,685,581
Corporate bonds	8,498,006	8,830,480
Collateralized mortgage obligations	9,246,088	2,817,731
Equity mutual funds	72,597,598	63,668,690
Real estate mutual funds	5,047,618	4,883,158
Total investments	<u>\$ 102,307,802</u>	<u>\$ 91,885,640</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
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, 2019 and 2018, the carrying amounts and fair values for each investment are as follows:

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan	\$ 2,798,189	\$ -	\$ -	\$ 2,798,189
Fannie Mae	6,150,266	-	-	6,150,266
Ginnie Mae	297,633	-	-	297,633
U.S. Treasury Notes	6,918,492	-	-	6,918,492
Corporate Bonds	-	8,498,006	-	8,498,006
Equity mutual funds	72,597,598	-	-	72,597,598
Real estate mutual funds	5,047,618	-	-	5,047,618
	<u>\$ 93,809,796</u>	<u>\$ 8,498,006</u>	<u>\$ -</u>	<u>\$ 102,307,802</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements (continued)

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan	\$ 19,147	\$ -	\$ -	\$ 19,147
Fannie Mae	2,798,584	-	-	2,798,584
U.S. Treasury Notes	11,685,581	-	-	11,685,581
Corporate Bonds	-	8,830,480	-	8,830,480
Equity mutual funds	63,668,690	-	-	63,668,690
Real estate mutual funds	4,883,158	-	-	4,883,158
	<u>\$ 83,055,160</u>	<u>\$ 8,830,480</u>	<u>\$ -</u>	<u>\$ 91,885,640</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 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.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Credit Risk

The Plan'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, 2019 and 2018, the Plan's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

<u>Standard & Poor's</u>	2019		2018	
	<u>Corporate Bonds</u>	<u>CMO</u>	<u>Corporate Bonds</u>	<u>CMO</u>
AAA	\$ 252,386	\$ -	\$ 1,161,367	\$ -
AA	815,528	9,246,088	1,217,472	2,817,731
A	4,283,386	-	3,066,480	-
BBB	3,146,706	-	3,219,700	-
Not rated	-	-	165,461	-
	<u>\$ 8,498,006</u>	<u>\$ 9,246,088</u>	<u>\$ 8,830,480</u>	<u>\$ 2,817,731</u>
 <u>Moody's</u>				
Aaa	\$ 467,858	\$ 9,246,088	\$ 415,196	\$ 2,817,731
Aa	962,154	-	1,143,385	-
A	4,542,664	-	3,346,323	-
Baa	2,345,762	-	2,909,196	-
Not rated	179,568	-	1,016,380	-
	<u>\$ 8,498,006</u>	<u>\$ 9,246,088</u>	<u>\$ 8,830,480</u>	<u>\$ 2,817,731</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

Rate of Return

For the years ended December 31, 2019 and 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 18.87% and (6.98)%, 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, 2019 and 2018, maturities of the Plan's debt securities were as follows:

<u>2019</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	\$ 6,918,492	\$ -	\$ 5,986,611	\$ -	\$ 931,881
Corporate Bonds	8,498,006	165,559	5,261,774	813,806	2,256,867
Collateralized Mortgage Obligations	9,246,088	-	529,125	129,673	8,587,290
	<u>\$ 24,662,586</u>	<u>\$ 165,559</u>	<u>\$ 11,777,510</u>	<u>\$ 943,479</u>	<u>\$ 11,776,038</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk (continued)

<u>2018</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	\$ 11,685,581	\$ -	\$ 6,021,855	\$ -	\$ 5,663,726
Corporate Bonds	8,830,480	168,088	4,976,319	1,669,591	2,016,482
Collateralized Mortgage Obligations	2,817,731	-	-	-	2,817,731
	<u>\$ 23,333,792</u>	<u>\$ 168,088</u>	<u>\$ 10,998,174</u>	<u>\$ 1,669,591</u>	<u>\$ 10,497,939</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, 2019 and 2018, 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% of total investments in foreign currency-denominated investments.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Foreign Currency Risk (continued)

The Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2019 and 2018, is summarized below:

<u>Currency</u>	<u>2019</u>	<u>2018</u>
Canadian Dollar	\$ 260,053	\$ 198,913
Euro	365,343	519,256
Norwegian Krone	24,234	23,595
British Pound Sterling	469,149	513,368
Swiss Franc	47,452	45,565
	<u>\$ 1,166,231</u>	<u>\$ 1,300,697</u>

NOTE 4 - ADMINISTRATIVE AND INVESTMENT EXPENSES

The following provides additional details related to administrative and investment expenses for the years ended December 31, 2019 and 2018:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent of Net Position</u>	<u>Amount</u>	<u>Percent of Net Position</u>
Investment advisor fees	\$ 305,918	0.300%	\$ 343,375	0.378%
Administrative expenses	163,343	0.160%	106,986	0.118%
	<u>\$ 469,261</u>		<u>\$ 450,361</u>	

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - 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.

NOTE 6 - NET OPEB LIABILITY

The components of the net OPEB liability of the Plan at December 31, 2019 and 2018, measurement dates were as follows:

	<u>2019</u>	<u>2018</u>
Total OPEB liability	\$ 287,109,353	\$ 253,315,222
Plan fiduciary net position	<u>102,105,385</u>	<u>90,936,245</u>
Net OPEB liability	\$ 185,003,968	\$ 162,378,977
Plan fiduciary net position as a percentage of the total OPEB liability	35.56%	35.90%
Covered payroll	\$ 22,773,155	\$ 39,920,744
Net OPEB liability as a percentage of covered payroll	812.38%	406.75%

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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 actuarial valuations as of December 31, 2018 and 2017, and measurement dates of December 31, 2019 and 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation as of December 31, 2018 and measurement date of December 31, 2019:

Actuarial cost method	Individual entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	5 years smoothed market
Inflation	3.50% (which includes price inflation of 2.50%)
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	8.25% 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"

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NET OPEB LIABILITY (continued)

Actuarial Assumptions (continued)

Actuarial valuation as of December 31, 2017 and measurement date of December 31, 2018:

Actuarial cost method	Individual entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	24 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	8.25% 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, 2018 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 3.69% 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 7.25% and a municipal bond rate of 2.75%. 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 2034. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2034, and the municipal bond rate was applied to all benefit payments after that date.

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NET OPEB LIABILITY (continued)

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 or 1-percentage-point higher than the current discount rate:

<u>2019</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 228,718,690</u>	<u>\$ 185,003,968</u>	<u>\$ 149,598,809</u>
 <u>2018</u>			
Net OPEB liability	<u>\$ 198,006,037</u>	<u>\$ 162,378,977</u>	<u>\$ 133,221,943</u>

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 or 1-percentage-point higher than the current healthcare cost trend rate:

<u>2019</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 144,919,720</u>	<u>\$ 185,003,968</u>	<u>\$ 234,977,420</u>
 <u>2018</u>			
Net OPEB liability	<u>\$ 129,080,963</u>	<u>\$ 162,378,977</u>	<u>\$ 203,298,588</u>

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - SUBSEQUENT EVENT

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of many businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Plan expects this matter to potentially negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
SCHEDULE OF CHANGES IN THE PLAN'S NET OPEB LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS (ULTIMATELY TEN FISCAL YEARS WILL BE DISPLAYED)

	2019	2018	2017
CHANGE IN TOTAL OPEB LIABILITY			
Service cost	\$ 2,734,661	\$ 2,740,829	\$ 1,490,221
Interest	11,124,987	10,773,588	12,162,956
Change of benefit terms	-	(3,068,315)	-
Difference between expected and actual experience	(17,999,270)	8,398,776	(45,814)
Changes of assumptions	47,299,449	6,299,583	67,099,621
Benefit payments, including refunds of member contributions	(9,365,696)	(9,334,535)	(9,258,659)
NET CHANGE IN TOTAL OPEB LIABILITY	33,794,131	15,809,926	71,448,325
TOTAL OPEB LIABILITY, BEGINNING	253,315,222	237,505,296	166,056,971
TOTAL OPEB LIABILITY, ENDING (A)	<u>\$ 287,109,353</u>	<u>\$ 253,315,222</u>	<u>\$ 237,505,296</u>
CHANGE IN PLAN FIDUCIARY NET POSITION			
Employer contributions	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000
Employee contributions	978,010	970,429	920,121
OPEB plan net investment income (loss)	17,160,651	(7,353,500)	14,711,769
Benefit payments, including refunds of member contributions	(10,343,706)	(10,304,964)	(10,178,780)
Administrative expenses	(125,815)	(106,986)	(100,922)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	11,169,140	(13,295,021)	8,852,188
PLAN FIDUCIARY NET POSITION, BEGINNING	90,936,245	104,231,266	95,379,078
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>
PLAN'S NET OPEB LIABILITY, ENDING (A)-(B)	<u>\$ 185,003,968</u>	<u>\$ 162,378,977</u>	<u>\$ 133,274,030</u>
Plan fiduciary net position as a percentage of the total OPEB liability	35.56%	35.90%	43.89%
Covered-employee payroll	\$ 22,773,155	\$ 39,920,744	\$ 37,363,784
Plan's net OPEB liability as a percentage of covered-employee payroll	812.38%	406.75%	356.69%

**CITY OF KALAMAZOO, MICHIGAN
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
LAST THREE FISCAL YEARS (ULTIMATELY TEN FISCAL YEARS WILL BE DISPLAYED)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	18.87%	(6.98)%	15.81%