

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

FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

TABLE OF CONTENTS

December 31, 2018 and 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-v
BASIC FINANCIAL STATEMENTS	
Statements of Plan Net Position	1
Statements of Changes in Plan Net Position	2
Notes to Financial Statements	3-12
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the Plan's Net OPEB Liability and Related Ratios	13
Schedule of Employer Contributions	14
Schedule of Investment Returns	15

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, 2018, 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 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, 2018, 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, 2018 and 2017, 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.

Report on Comparative Information

The comparative information presented herein as of and for the year ended December 31, 2017, was derived from financial statements that were audited by Stevens, Kirinovic & Tucker, P.C. whose report dated June 27, 2018, 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.

Maney Costeiran PC

June 28, 2019

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018 and 2017

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, 2018 and 2017. 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,		
	2018	2017	2016
Total assets	\$ 92,094,162	\$ 105,162,435	\$ 96,311,620
Total liabilities	1,157,917	931,169	932,542
Net position restricted for OPEB benefits	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>	<u>\$ 95,379,078</u>
Net investment income (loss)	\$ (7,353,500)	\$ 14,711,769	\$ 10,985,290
Contributions	4,470,429	4,420,121	4,385,073
Total additions (reductions)	(2,883,071)	19,131,890	15,370,363
Benefits paid	10,304,964	10,178,780	10,284,889
General and administrative expenses	106,986	100,922	97,045
Total deductions from net position	10,411,950	10,279,702	10,381,934
Net change in net position restricted for OPEB	(13,295,021)	8,852,188	4,988,429
Net position restricted for OPEB benefits			
Beginning of Year	<u>104,231,266</u>	<u>95,379,078</u>	<u>90,390,649</u>
End of Year	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>	<u>\$ 95,379,078</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 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 Annual Required Contributions (ARC) of \$8,111,777 for 2018, and the City was required to make ARC of \$7,610,636 for 2017. 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, 2018, actuarial report, the valuation of assets represented 55.8% of accrued liabilities. As of the January 1, 2017, actuarial report, the valuation of assets represented 57.4% of accrued liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018 and 2017

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 2018, 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, 2018 and 2017

The City's Group Trust contains the City's Pension, the Central County Transportation Authority's (CCTA) Pension, and OPEB investment assets. Global markets experienced extreme volatility in 2018, ending in a down year for both stocks and bonds, resulting in declines in annual returns. The investment portfolio for the OPEB Trust reported a net return of -7.36% for fiscal year 2018, which was a sharp decrease from the 15.83% net return in 2017. Equities provided the greatest loss, returning -10.56% for the year, while Fixed Income returned a loss of -.04%, and Real Estate had a modest return of .86%. The net position of the trust at year end was approximately \$91 million, a decrease of \$13 million from fiscal year 2017.

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.

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

STATEMENTS OF PLAN NET POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 16,492	\$ 31,705
Receivables		
Interest and dividends	154,163	167,032
Investments sold	37,867	263,889
Total receivables	192,030	430,921
Investments, at fair value		
U.S. Treasuries	11,685,581	12,781,502
U.S. Agencies	-	228,552
Corporate bonds	8,830,480	9,273,954
Collateralized mortgage obligations	2,817,731	2,789,356
Equity mutual funds	63,668,690	74,543,592
Real estate mutual funds	4,883,158	5,082,853
Total investments	91,885,640	104,699,809
Total assets	92,094,162	105,162,435
LIABILITIES		
Accounts payable	1,157,917	931,169
NET POSITION		
Net position restricted for other post-employment benefits	\$ 90,936,245	\$ 104,231,266

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, 2018 and 2017

	2018	2017
ADDITIONS TO NET POSITION		
Investment income (loss)		
Change in fair value of investments	\$ (9,956,988)	\$ 11,967,187
Interest	673,165	651,990
Dividends	2,273,698	2,424,137
Total investment income (loss)	(7,010,125)	15,043,314
Less: investment expense	(343,375)	(331,545)
Net investment income (loss)	(7,353,500)	14,711,769
Contributions		
Employer	3,500,000	3,500,000
Plan members	970,429	920,121
Total contributions	4,470,429	4,420,121
Total additions (reductions) to net position	(2,883,071)	19,131,890
DEDUCTIONS FROM NET POSITION		
Benefits	10,304,964	10,178,780
Administrative expenses	106,986	100,922
Total deductions from net position	10,411,950	10,279,702
CHANGE IN PLAN NET POSITION	(13,295,021)	8,852,188
Net position - beginning of year	104,231,266	95,379,078
Net position - end of year	\$ 90,936,245	\$ 104,231,266

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

Plan Membership

Plan membership based on actuarial valuations as of December 31, 2017 and 2016, and measurement dates of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Retirees or beneficiaries receiving benefits	753	750
Inactive plan members entitled to but not yet receiving benefits	43	41
Active plan members	679	621
	1,475	1,412
 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. In addition to the healthcare benefits described above, the Plan provides a death benefit of \$1,000 to all eligible retirees.

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 2018, the annual required contributions for the employers were \$8,111,777 and in 2017, the annual required contributions for the employers were \$7,610,636.

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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2018 and 2017, the Plan's investments represented approximately 12.9% and 13.0% 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, 2018 and 2017, were \$16,492 and \$31,705, respectively. These amounts were fully insured as of December 31, 2018 and 2017, 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

December 31, 2018 and 2017

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

Investments - continued

The adopted asset allocation policy as of December 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
U.S. Treasuries	\$ 11,685,581	\$ 12,781,502
U.S. Agencies	-	228,552
Corporate bonds	8,830,480	9,273,954
Collateralized mortgage obligations	2,817,731	2,789,356
Equity mutual funds	63,668,690	74,543,592
Real estate mutual funds	4,883,158	5,082,853
Total investments	<u>\$ 91,885,640</u>	<u>\$ 104,699,809</u>

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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

Fair Value Measurements - continued

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, 2018 and 2017, the carrying amounts and fair values for each investment are as follows:

<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>\$ -0-</u>	<u>\$ 91,885,640</u>
<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>

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

December 31, 2018 and 2017

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

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, 2018 and 2017, the Plan's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

Standard & Poor's	2018		U.S. Agencies	2017	
	Corporate Bonds	CMO		Corporate Bonds	CMO
AAA	\$ 1,161,367	\$ -	\$ -	\$ 711,108	\$ -
AA	1,217,472	2,817,731	-	970,041	2,789,356
A	3,066,480	-	-	4,413,150	-
BBB	3,219,700	-	-	3,097,500	-
Not rated	165,461	-	228,552	82,155	-
	<u>\$ 8,830,480</u>	<u>\$ 2,817,731</u>	<u>\$ 228,552</u>	<u>\$ 9,273,954</u>	<u>\$ 2,789,356</u>
<u>Moody's</u>					
Aaa	\$ 415,196	\$ 2,817,731	\$ -	\$ 234,857	\$ 2,789,356
Aa	1,143,385	-	-	857,624	-
A	3,346,323	-	-	4,271,172	-
Baa	2,909,196	-	-	3,295,044	-
Not rated	1,016,380	-	228,552	615,257	-
	<u>\$ 8,830,480</u>	<u>\$ 2,817,731</u>	<u>\$ 228,552</u>	<u>\$ 9,273,954</u>	<u>\$ 2,789,356</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, 2018 and 2017, 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, 2018 and 2017, the Plan's equity holdings accounted for 69% and 71%, respectively, of the total investment portfolio; the Plan's holdings in real estate were 5% at December 31, 2018 and 2017.

Rate of Return

For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was (6.98)% and 15.81%, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE C: DEPOSITS AND INVESTMENTS - CONTINUED

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, 2018 and 2017, maturities of the Plan's debt securities were as follows:

<u>2018</u>	Fair Value	Investment Maturities (fair value by years)			
		Less than 1	1-5	6-10	More than 10
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>
<u>2017</u>					
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>

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, 2018 and 2017, 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

December 31, 2018 and 2017

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, 2018 and 2017, is summarized below:

Currency	2018	2017
Canadian Dollar	\$ 198,913	\$ 123,629
Euro	519,256	613,375
Norwegian Krone	23,595	24,584
British Pound Sterling	513,368	532,947
Mexican Peso	-	19,546
Swiss Franc	45,565	-
	\$ 1,300,697	\$ 1,314,081

NOTE D: ADMINISTRATIVE AND INVESTMENT EXPENSES

The following provides additional details related to administrative and investment expenses for the years ended December 31, 2018 and 2017:

	2018		2017	
	Amount	Percent of Net Position	Amount	Percent of Net Position
Investment advisor fees	\$ 343,375	0.378%	\$ 331,545	0.318%
Administrative expenses	106,986	0.118%	100,922	0.097%
	\$ 450,361		\$ 432,467	

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, 2018 and 2017

NOTE F: NET OPEB LIABILITY

The components of the net OPEB liability of the Plan at December 31, 2018 and 2017, measurement dates were as follows:

	2018	2017
Total OPEB liability	\$ 253,315,222	\$ 237,505,296
Plan fiduciary net position	90,936,245	104,231,266
Net OPEB liability	\$ 162,378,977	\$ 133,274,030
Plan fiduciary net position as a percentage of the total OPEB liability	35.90%	43.89%
Covered payroll	\$ 39,920,744	\$ 37,363,784
Net OPEB liability as a percentage of covered payroll	406.75%	356.69%

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, 2017 and 2016, and measurement dates of December 31, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

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"

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE F: NET OPEB LIABILITY - CONTINUED

Actuarial Assumptions - continued

Actuarial valuation as of December 31, 2016 and measurement date of December 31, 2017:

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 4.45% 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% and a municipal bond rate of 3.71%. 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 2031. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2031, 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 or 1-percentage-point higher than the current discount rate:

<u>2018</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 198,006,037</u>	<u>\$ 162,378,977</u>	<u>\$ 133,221,943</u>
 <u>2017</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, 2018 and 2017

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

<u>2018</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 129,080,963</u>	<u>\$ 162,378,977</u>	<u>\$ 203,298,588</u>
<u>2017</u>			
Net OPEB liability	<u>\$ 101,786,181</u>	<u>\$ 133,274,030</u>	<u>\$ 172,016,816</u>

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 Two Fiscal Years (ultimately ten fiscal years will be displayed)

	2018	2017
CHANGE IN TOTAL OPEB LIABILITY		
Service cost	\$ 2,740,829	\$ 1,490,221
Interest	10,773,588	12,162,956
Change of benefit terms	(3,068,315)	-
Difference between expected and actual experience	8,398,776	(45,814)
Changes of assumptions	6,299,583	67,099,621
Benefit payments, including refunds of member contributions	(9,334,535)	(9,258,659)
NET CHANGE IN TOTAL OPEB LIABILITY	15,809,926	71,448,325
TOTAL OPEB LIABILITY, BEGINNING	237,505,296	166,056,971
TOTAL OPEB LIABILITY, ENDING (A)	\$ 253,315,222	\$ 237,505,296
CHANGE IN PLAN FIDUCIARY NET POSITION		
Employer contributions	\$ 3,500,000	\$ 3,500,000
OPEB plan net investment income (loss)	(7,353,500)	14,711,769
Benefit payments, including refunds of member contributions	(9,334,535)	(9,258,659)
Administrative expenses	(106,986)	(100,922)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(13,295,021)	8,852,188
PLAN FIDUCIARY NET POSITION, BEGINNING	104,231,266	95,379,078
PLAN FIDUCIARY NET POSITION, ENDING (B)	\$ 90,936,245	\$ 104,231,266
PLAN'S NET OPEB LIABILITY, ENDING (A)-(B)	\$ 162,378,977	\$ 133,274,030
Plan fiduciary net position as a percentage of the total OPEB liability	35.90%	43.89%
Covered-employee payroll	\$ 39,920,744	\$ 37,363,784
Plan's net OPEB liability as a percentage of covered-employee payroll	406.75%	356.69%

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

SCHEDULE OF INVESTMENT RETURNS

Last Two Fiscal Years (ultimately ten fiscal years will be displayed)

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