

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

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

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**



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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, 2020 and 2019, 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, 2020 and 2019, 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 2, 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, 2020 and 2019, 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.

*Manes Costeiron PC*

June 25, 2021

**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, 2020 and 2019. 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,		
	2020	2019	2018
Total assets	\$ 105,528,591	\$ 102,869,919	\$ 92,094,162
Total liabilities	613,304	764,534	1,157,917
Net position restricted for OPEB benefits	<u>\$ 104,915,287</u>	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>
Net investment income (loss)	\$ 8,469,461	\$ 17,160,651	\$ (7,353,500)
Contributions	4,499,874	4,478,010	4,470,429
Total additions (reductions)	<u>12,969,335</u>	<u>21,638,661</u>	<u>(2,883,071)</u>
Benefits paid	10,018,259	10,343,706	10,304,964
General and administrative expenses	141,174	125,815	106,986
Total deductions from net position	<u>10,159,433</u>	<u>10,469,521</u>	<u>10,411,950</u>
Net change in net position restricted for OPEB	2,809,902	11,169,140	(13,295,021)
Net position restricted for OPEB benefits			
Beginning of Year	<u>102,105,385</u>	<u>90,936,245</u>	<u>104,231,266</u>
End of Year	<u>\$ 104,915,287</u>	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</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' actuarially determined contributions (ADC) were \$9,838,111 for 2020, and \$8,012,819 for 2019. 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, 2020 actuarial report, the valuation of assets represented 51.3% of accrued liabilities. As of the January 1, 2019, actuarial report, the valuation of assets represented 56.3% 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:

Asset Class	Target
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 9.25% in 2020, comparatively lower than the net return of 19.27% in 2019. Equities returned 9.25%, Fixed Income returned 10.24%, while Real Estate had losses of (1.73%). The net position of the OPEB Trust at year end was approximately \$104.9 million, an increase of \$2.8 million from fiscal year 2019.

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

In 2020 markets experienced volatile trading with large day to day swings due mostly to the COVID-19 pandemic. After historic plunges in February and March, the market saw an incredible and relatively quick recovery. Federal stimulus and vaccine development spurred economic growth, and the stock market set multiple new highs throughout the year. 2021 will bring another year of uncertainty, as Global and US economies continue to recover from the pandemic.

**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, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 308,570	\$ 111,883
Receivables		
Accounts	26,253	-
Interest and dividends	93,006	133,852
Investments sold	556,096	316,382
Total receivables	675,355	450,234
Investments, at fair value		
U.S. Treasuries	7,482,842	6,918,492
Corporate bonds	11,442,319	8,498,006
Municipal bonds	40,089	-
Collateralized mortgage obligations	6,524,269	9,246,088
Equity mutual funds	73,832,033	72,597,598
Real estate mutual funds	5,223,114	5,047,618
Total investments	104,544,666	102,307,802
Total assets	105,528,591	102,869,919
<b>LIABILITIES</b>		
Accounts payable	613,304	764,534
<b>NET POSITION</b>		
Net position restricted for other post-employment benefits	\$ 104,915,287	\$ 102,105,385

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, 2020 AND 2019**

	2020	2019
<b>ADDITIONS TO NET POSITION</b>		
Investment income		
Change in fair value of investments	\$ 7,097,097	\$ 15,120,819
Interest	527,631	687,350
Dividends	1,161,737	1,695,928
	8,786,465	17,504,097
Total investment income		
Less investment expense	(317,004)	(343,446)
Net investment income	8,469,461	17,160,651
Contributions		
Employer	3,500,000	3,500,000
Plan members	999,874	978,010
	4,499,874	4,478,010
Total contributions		
Total additions to net position	12,969,335	21,638,661
<b>DEDUCTIONS FROM NET POSITION</b>		
Benefits	10,018,259	10,343,706
Administrative expenses	141,174	125,815
	10,159,433	10,469,521
Total deductions from net position		
<b>CHANGE IN PLAN NET POSITION</b>	2,809,902	11,169,140
Net position - beginning of year	102,105,385	90,936,245
Net position - end of year	\$ 104,915,287	\$ 102,105,385

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 with measurement dates of December 31, 2020 and 2019 consisted of the following:

	2020	2019
Retirees or beneficiaries receiving benefits	692	686
Inactive plan members entitled to but not yet receiving benefits	37	42
Active plan members	281	308
	1,010	1,036
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 contribute such amounts, as necessary to provide assets sufficient to pay for member benefits. In 2020, the actuarially determined contributions for the employers were \$9,838,111 and in 2019, the actuarially determined contributions for the employers were \$8,012,819. Actual contributions for the years ended December 31, 2020 and 2019, were \$3,500,000.

**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, 2020 and 2019, the Plan's investments represented approximately 12.5% and 12.6% 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, 2020 and 2019, were \$308,570 and \$111,883, respectively. These amounts were fully insured as of December 31, 2020 and 2019, 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, 2020 and 2019, was as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	
		2020	2019
Micro Capitalization Domestic Equity	5.00%	4.78%	4.87%
Small Capitalization Domestic Equity	10.00%	4.78%	4.87%
Small Capitalization Value International Equity	10.00%	4.08%	5.37%
S&P Index Funds	30.00%	4.28%	4.37%
Large Capitalization Domestic Equity	5.00%	4.28%	4.37%
Emerging Markets Equity	10.00%	7.18%	7.87%
Intermediate Fixed Income	12.50%	-0.92%	0.57%
Long Fixed Income	12.50%	-0.92%	0.57%
Real Estate Securities	2.50%	2.28%	2.77%
Real Estate	2.50%	2.28%	2.77%

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:

	2020	2019
U.S. Treasuries	\$ 7,482,842	\$ 6,918,492
Corporate bonds	11,442,319	8,498,006
Municipal bonds	40,089	-
Collateralized mortgage obligations	6,524,269	9,246,088
Equity mutual funds	73,832,033	72,597,598
Real estate mutual funds	5,223,114	5,047,618
Total investments	<u>\$ 104,544,666</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

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, 2020 and 2019, the carrying amounts and fair values for each investment are as follows:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal Home Loan	\$ -	\$ 1,582,068	\$ -	\$ 1,582,068
Fannie Mae	-	3,887,805	-	3,887,805
Ginnie Mae	-	1,054,396	-	1,054,396
U.S. Treasury Notes	-	7,482,842	-	7,482,842
Corporate Bonds	-	11,442,319	-	11,442,319
Municipal bonds	-	40,089	-	40,089
Equity mutual funds	73,832,033	-	-	73,832,033
Real estate mutual funds	5,223,114	-	-	5,223,114
	<u>\$ 79,055,147</u>	<u>\$ 25,489,519</u>	<u>\$ -</u>	<u>\$ 104,544,666</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>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>\$ 77,645,216</u>	<u>\$ 24,662,586</u>	<u>\$ -</u>	<u>\$ 102,307,802</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, 2020 and 2019, the Plan's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

<u>Standard &amp; Poor's</u>	<u>2020</u>			<u>2019</u>	
	<u>Corporate Bonds</u>	<u>Municipal Bonds</u>	<u>CMO</u>	<u>Corporate Bonds</u>	<u>CMO</u>
AAA	\$ 918,376	\$ 40,089	\$ -	\$ 252,386	\$ -
AA	1,706,793	-	6,524,269	815,528	9,246,088
A	3,892,138	-	-	4,283,386	-
BBB	4,683,017	-	-	3,146,706	-
Not rated	241,995	-	-	-	-
	<u>\$ 11,442,319</u>	<u>\$ 40,089</u>	<u>\$ 6,524,269</u>	<u>\$ 8,498,006</u>	<u>\$ 9,246,088</u>
 <u>Moody's</u>					
Aaa	\$ 1,333,621	\$ 40,089	\$ 6,524,269	\$ 467,858	\$ 9,246,088
Aa	1,329,111	-	-	962,154	-
A	5,328,807	-	-	4,542,664	-
Baa	3,128,546	-	-	2,345,762	-
Ba	8,185	-	-	-	-
Not rated	314,049	-	-	179,568	-
	<u>\$ 11,442,319</u>	<u>\$ 40,089</u>	<u>\$ 6,524,269</u>	<u>\$ 8,498,006</u>	<u>\$ 9,246,088</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, 2020 and 2019, 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, 2020 and 2019, the Plan's equity holdings accounted for 70% and 71%, respectively, of the total investment portfolio; the Plan's holdings in real estate were 5% at December 31, 2020 and 2019.

Rate of Return

For the years ended December 31, 2020 and 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 8.33% and 18.87%, 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, 2020 and 2019, maturities of the Plan's debt securities were as follows:

<u>2020</u>	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasuries	\$ 7,482,842	\$ -	\$ 3,453,515	\$ 2,144,339	\$ 1,884,988
Corporate Bonds	11,442,319	374,086	4,686,954	2,931,857	3,449,422
Municipal bonds	40,089	-	-	-	40,089
Collateralized Mortgage Obligations	6,524,269	-	199,307	65,065	6,259,897
	<u>\$ 25,489,519</u>	<u>\$ 374,086</u>	<u>\$ 8,339,776</u>	<u>\$ 5,141,261</u>	<u>\$ 11,634,396</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>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>

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, 2020 and 2019, 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, 2020 and 2019, is summarized below:

<u>Currency</u>	<u>2020</u>	<u>2019</u>
Canadian Dollar	\$ 69,105	\$ 260,053
Euro	275,855	365,343
Norwegian Krone	222,765	24,234
British Pound Sterling	439,501	469,149
Swiss Franc	-	47,452
	<u>\$ 1,007,226</u>	<u>\$ 1,166,231</u>

**NOTE 4 - ADMINISTRATIVE AND INVESTMENT EXPENSES**

The following provides additional details related to administrative and investment expenses for the years ended December 31, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percent of Net Position</u>	<u>Amount</u>	<u>Percent of Net Position</u>
Investment advisor fees	\$ 274,375	0.262%	\$ 305,918	0.300%
Trust and custodial fees	42,629	0.041%	37,528	0.037%
Administrative expenses	<u>141,174</u>	0.135%	<u>125,815</u>	0.123%
	<u>\$ 458,178</u>		<u>\$ 469,261</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, 2020 and 2019, measurement dates were as follows:

	<u>2020</u>	<u>2019</u>
Total OPEB liability	\$ 337,511,859	\$ 287,109,353
Plan fiduciary net position	<u>104,915,287</u>	<u>102,105,385</u>
Net OPEB liability	<u>\$ 232,596,572</u>	<u>\$ 185,003,968</u>
Plan fiduciary net position as a percentage of the total OPEB liability	31.08%	35.56%
Covered payroll	\$ 21,057,232	\$ 22,773,155
Net OPEB liability as a percentage of covered payroll	1104.59%	812.38%

**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 January 1, 2020 and 2019, and measurement dates of December 31, 2020 and 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation as of January 1, 2020 and measurement date of December 31, 2020:

Actuarial cost method	Individual entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	22 years
Asset valuation method	5 years smoothed market
Inflation	3.50% (which includes price inflation of 2.25%)
Projected salary increases	3.50% to 15.50% (includes inflation)
Investment rate of return	7.25%, net of OPEB plan investment expense
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality rates	Pub-2010 Amount-Weighted, Male and Female tables for General and Safety 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 January 1, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

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

**NOTE 6 - NET OPEB LIABILITY (continued)**

Actuarial Assumptions (continued)

Actuarial valuation as of January 1, 2019 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"

The actuarial assumptions used in the January 1, 2019 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 2.85% 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 2.00%. 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>2020</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 286,916,517</u>	<u>\$ 232,596,572</u>	<u>\$ 188,960,472</u>
 <u>2019</u>			
Net OPEB liability	<u>\$ 228,718,690</u>	<u>\$ 185,003,968</u>	<u>\$ 149,598,809</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>2020</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 183,559,064</u>	<u>\$ 232,596,572</u>	<u>\$ 294,155,240</u>
 <u>2019</u>			
Net OPEB liability	<u>\$ 144,919,720</u>	<u>\$ 185,003,968</u>	<u>\$ 234,977,420</u>

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

**NOTE 7 - UNCERTAINTIES**

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 FOUR FISCAL YEARS (ULTIMATELY TEN FISCAL YEARS WILL BE DISPLAYED)**

	2020	2019	2018	2017
CHANGE IN TOTAL OPEB LIABILITY				
Service cost	\$ 3,521,372	\$ 2,734,661	\$ 2,740,829	\$ 1,490,221
Interest	10,492,915	11,124,987	10,773,588	12,162,956
Change of benefit terms	-	-	(3,068,315)	-
Difference between expected and actual experience	(3,102,684)	(17,999,270)	8,398,776	(45,814)
Changes of assumptions	48,509,288	47,299,449	6,299,583	67,099,621
Benefit payments, including refunds of member contributions	(9,018,385)	(9,365,696)	(9,334,535)	(9,258,659)
NET CHANGE IN TOTAL OPEB LIABILITY	50,402,506	33,794,131	15,809,926	71,448,325
TOTAL OPEB LIABILITY, BEGINNING	287,109,353	253,315,222	237,505,296	166,056,971
TOTAL OPEB LIABILITY, ENDING (A)	<u>\$ 337,511,859</u>	<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	\$ 3,500,000
Employee contributions	999,874	978,010	970,429	920,121
OPEB plan net investment income (loss)	8,469,461	17,160,651	(7,353,500)	14,711,769
Benefit payments, including refunds of member contributions	(10,018,259)	(10,343,706)	(10,304,964)	(10,178,780)
Administrative expenses	(141,174)	(125,815)	(106,986)	(100,922)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	2,809,902	11,169,140	(13,295,021)	8,852,188
PLAN FIDUCIARY NET POSITION, BEGINNING	102,105,385	90,936,245	104,231,266	95,379,078
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 104,915,287</u>	<u>\$ 102,105,385</u>	<u>\$ 90,936,245</u>	<u>\$ 104,231,266</u>
PLAN'S NET OPEB LIABILITY, ENDING (A)-(B)	<u>\$ 232,596,572</u>	<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	31.08%	35.56%	35.90%	43.89%
Covered payroll	\$ 21,057,232	\$ 22,773,155	\$ 39,920,744	\$ 37,363,784
Plan's net OPEB liability as a percentage of covered payroll	1104.59%	812.38%	406.75%	356.69%



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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	8.33%	18.87%	(6.98)%	15.81%