

Berrien County Postemployment Healthcare Plan

Year Ended
December 31,
2017

Financial
Statements

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BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

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INDEPENDENT AUDITORS' REPORT

June 27, 2018

Board of Commissioners
Berrien County Postemployment Healthcare Plan
St. Joseph, Michigan

We have audited the accompanying statement of fiduciary net position of the *Berrien County Postemployment Healthcare Plan* (the "Plan"), an other postemployment benefit trust fund of the County of Berrien, Michigan, as of December 31, 2017 and the related statement of changes in fiduciary 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.

Independent Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor 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 fiduciary net position of the Plan, as of December 31, 2017, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Berrien County Postemployment Healthcare Plan other postemployment benefits trust fund and do not purport to, and do not, present fairly the financial position of the County of Berrien as of December 31, 2017, and the changes in its financial position for the year 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the County of Berrien, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



FINANCIAL STATEMENTS

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

Statement of Fiduciary Net Position
December 31, 2017

| | |
|---|----------------------|
| Assets | |
| Cash and cash equivalents | \$ 10,256 |
| Investments in mutual funds, at fair value: | |
| Equity | 21,192,216 |
| Fixed income | 10,892,647 |
| Commodities | 1,313,816 |
| Real estate | <u>1,816,734</u> |
| Net position restricted for retiree healthcare benefits | <u>\$ 35,225,669</u> |

The accompanying notes are an integral part of these financial statements.

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

**Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2017**

| | |
|---|-----------------------------|
| Additions | |
| Investment income: | |
| Net change in fair value of investments | \$ 4,070,305 |
| Interest and dividends | <u>9</u> |
| Total investment income | 4,070,314 |
| Contributions - | |
| Employer | <u>4,250,834</u> |
| Total additions | 8,321,148 |
| Deductions | |
| Retiree healthcare benefit payments | <u>3,814,978</u> |
| Change in net position | 4,506,170 |
| Net position, beginning of year | <u>30,719,499</u> |
| Net position, end of year | <u><u>\$ 35,225,669</u></u> |

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

1. PLAN DESCRIPTION

General. The County of Berrien, Michigan ("the County") administers the Berrien County Postemployment Healthcare Plan (the "Plan"), a single-employer defined benefit healthcare plan authorized by Section 12a of Act No. 156 of the Public Acts of 1851, which was adopted and established by the County in accordance with Michigan Compiled Laws Section 46.12a. Employer and employee contributions and benefit provisions are authorized and may be amended by County Board resolution and benefits may vary pursuant to collective bargaining agreements.

The Plan is governed by the Finance Committee of the Berrien County Board of Commissioners. The Finance Committee is assisted by a Pension Investment Trust Committee made up of three individuals appointed by the Board of Commissioners and the County's Financial Consultant.

The Plan is administered by the County; accordingly, it is included as an other postemployment benefits trust fund in the County's financial statements. Plan amendments are under the authority of County Ordinances. Changes in required contributions are subject to collective bargaining agreements and approval by the Berrien County Board of Commissioners.

Plan membership. Plan membership consisted of the following at December 31, 2017:

| | |
|---|-----------------------|
| Retirees and beneficiaries currently receiving benefits | 371 |
| Terminated employees entitled to but not yet receiving benefits | - |
| Vested active participants | <u>522</u> |
| Total membership | <u><u>893</u></u> |

Contributions. The contribution requirements of Plan members and the County are established and may be amended by the County Board of Commissioners. Plan members are not required to contribute to the Plan. The County is required to contribute at actuarially determined rates expressed as a percentage of covered payroll. The County's contribution rate for the plan for the year ended December 31, 2017 ranged from 8.19% to 29.09% of projected valuation payroll.

Benefits provided

The County subsidizes 50% of the cost of postemployment healthcare for Courthouse, Sheriff and Riverwood retirees who retire directly from active employment. Sheriffs hired prior to January 1, 1993 contribute up to a maximum of \$150 towards their retiree healthcare. Spouses and dependents of Sheriff retirees can be covered under the County's plan and the County will pay 50% of the premium cost for both the retiree and the spouse. Spouses of Courthouse retirees can be covered under the County's plan, but the retiree pays the full premium on behalf of the spouse. Spouses of Riverwood retirees who retire after 1/1/1998 can be covered under the County's plan, but the retiree pays 50% of the premium on behalf of the spouse.

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

Courthouse Elected, Appointed, Non-bargaining and non-union members hired after 1/1/2012 are not eligible for healthcare upon retirement.

Sheriff POLC General Unit, POLC Dispatch Unit, POLC Dispatch Supervisory Unit, and Sheriff Command Unit members hired after 1/1/2013 are not eligible for healthcare upon retirement.

Riverwood Union and Non-Union members hired after 2/1/13 are not eligible for healthcare upon retirement. Employees hired prior to 2/1/13, who retire directly from active status (prior to Medicare eligibility), shall receive a \$500 monthly stipend for the employee and a \$500 monthly stipend for their spouse (at the time of retirement). Upon attaining Medicare eligibility, the monthly stipends will be reduced to \$250.

AFSCME Probate & Juvenile Court Bargaining, Courthouse FOPLC Civilian Unit, and Courthouse Teamster FOC members hired after 1/1/2014 are not eligible for healthcare upon retirement.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting. The Plan's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Valuation of investments. The Plan's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Plan's Board of Directors, with the assistance of a valuation service; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Administration. Administrative costs are financed through investment earnings.

3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At year-end, the carrying amount of the Plan's deposits was \$10,256. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the County's basic financial statements.

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

Investments

The Michigan Public Employees Retirement Plans' 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.

Investment allocation policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by its Board of Trustees. The policy pursues an investment strategy that protects the financial health of the Plan and reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Plan assets will be invested in the broad investment categories and asset classes to achieve the allocation targets below. Recognizing that asset returns may vary, causing fluctuations in the relative dollar value levels of assets within classes, the Plan may not maintain strict adherence to the targets in the short-term, but may allow the values to fluctuate within these ranges. Over the long-term, the Plan will strive to adhere to the given targets as financially practicable and move toward target allocations in a prudent manner consistent with its fiduciary duty.

The adopted asset allocation policy as of December 31, 2017, is as follows:

| Asset class | Target Allocation | Allocation Range |
|--------------------------|-------------------|------------------|
| Equities | 61% | 35% to 65% |
| Fixed income | 30% | 20% to 40% |
| Other investments | 9% | 0% to 15% |
| Cash | 0% | 0% to 5% |
| Total investments | 100% | |

Investments. The Plan's investments are primarily held in a bank administered trust fund. Following is a summary of the Plan's investments as of December 31, 2017:

Mutual funds at fair value, as determined by quoted market price:

Equity:

| | |
|-------------------------------------|---------------|
| RIC U.S. Defensive Equity | \$ 12,122,185 |
| RIC U.S. Small Cap Equity | 2,682,703 |
| RIC International developed markets | 4,479,978 |
| RIC emerging markets | 952,780 |
| Russell global infrastructure fund | 954,570 |

Fixed income -

| | |
|--------------------------------|------------|
| RIC investment grade bond fund | 10,892,647 |
|--------------------------------|------------|

Commodities -

| | |
|-------------------------------|-----------|
| RIC commodity strategies fund | 1,313,816 |
|-------------------------------|-----------|

Real estate:

| | |
|-----------------------------------|---------|
| Russell real estate equity fund | 861,774 |
| Russell real estate security fund | 954,960 |

Total investments \$ 35,215,413

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan’s investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks. The Plan invests in mutual funds, which are comprised of various securities. The percentages below represent the percent of the mutual funds that are invested in securities with a particular rating. As of December 31, 2017, the Plan’s investments in debt securities (i.e. - fixed income mutual funds) were rated by Standard & Poor’s as follows:

| Rating | Percentage |
|-------------|------------|
| AAA | 57.0% |
| AA | 7.9% |
| A | 11.6% |
| BBB | 21.1% |
| BB | 1.3% |
| B | 0.1% |
| CCC & below | 0.1% |
| Unrated | 0.9% |
| | 100.0% |

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 requires that securities be held in trust by a third-party institution in the Plan’s name or its nominee custodian’s name or in bearer form. 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 or agent in the Plan’s name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan’s investment in a single issuer. At December 31, 2017, the Plan’s investment portfolio was not concentrated to a particular issuer due to the only investments being in shares of mutual funds.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan’s investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

The Plan invests in mutual funds, which are comprised of various securities. The percentages below represent the percent of the mutual funds that are invested in securities with a particular maturity. As of December 31, 2017, maturities of the Plan's debt securities (i.e. - fixed income mutual funds), were as follows:

| Maturity Distribution (Years) | Percentage |
|-------------------------------|------------|
| 0 to 3 | 18.1% |
| 3 to 5 | 20.1% |
| 5 to 7 | 24.7% |
| 7 to 10 | 18.9% |
| 10 to 15 | 3.0% |
| 15 to 20 | 3.2% |
| 20 to 25 | 3.6% |
| 25+ | 8.4% |
| | 100.0% |

Rate of return. For the year ended December 31, 2017, the annual money-weighted rate of return on Plan investments, net of investment expenses, was 13.12%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements - The Plan categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices included within Level 1- that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the Plan. The Plan has the following recurring fair value measurements as of December 31, 2017:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value at December 31, 2017 |
|---------------------------------|--|---|---|---------------------------------|
| Investments at fair value: | | | | |
| Equity mutual funds | \$ 21,192,216 | \$ - | \$ - | \$ 21,192,216 |
| Fixed income mutual funds | 10,892,647 | - | - | 10,892,647 |
| Commodities mutual funds | 1,313,816 | - | - | 1,313,816 |
| Real estate mutual funds | 954,960 | - | 861,774 | 1,816,734 |
| | \$ 34,353,639 | \$ - | \$ 861,774 | \$ 35,215,413 |
| Total investments at fair value | | | | |

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

4. NET OPEB LIABILITY OF THE COUNTY

Net OPEB liability. The County's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017.

| | |
|--|----------------------|
| Total OPEB liability | \$ 70,407,341 |
| Plan fiduciary net position | <u>35,225,669</u> |
| Net OPEB liability | <u>\$ 35,181,672</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 50.03% |

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.75 percent |
| Salary increases | 3.25 to 6.25 percent, including inflation |
| Investment rate of return | 7.50 percent, net of OPEB Plan investment expense, including inflation |

Mortality rates were based on fully generational RP-2014 healthy annuitant tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. The margin for future mortality improvement is included in the MP-2015 mortality improvement scales.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study conducted in 2016 which covered the past 5 years experience (2011-2015). The next assumption review is scheduled for 2020.

Healthcare trend rates trend starting at 9.0% gradually decreasing to 3.25%.

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Notes to Financial Statements

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2017 (see the discussion of the Plan's investment allocation policy) are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|------------------------------|-------------------|--|--|
| U.S. large cap equities | 34.00% | 4.59% | 1.56% |
| U.S. small cap equities | 7.00% | 8.62% | 0.60% |
| International equities | 12.00% | 6.97% | 0.84% |
| Emerging markets equity | 2.00% | 7.95% | 0.16% |
| Global real estate | 2.00% | 6.51% | 0.13% |
| Global listed infrastructure | 2.00% | 6.57% | 0.13% |
| Commodities | 3.00% | 3.88% | 0.12% |
| U.S private real estate | 8.00% | 5.09% | 0.41% |
| Core fixed income | 30.00% | 0.38% | 0.11% |
| | <u>100%</u> | | 4.06% |
| Inflation | | | 2.75% |
| Risk adjustments | | | <u>0.69%</u> |
| Investment rate of return | | | <u>7.50%</u> |

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

■ Notes to Financial Statements

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the County, calculated using the discount rate of 7.50 percent, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|-----------------------------|------------------------|-------------------------------------|------------------------|
| County's net OPEB liability | \$ 43,933,823 | \$ 35,181,672 | \$ 27,927,162 |

Sensitivity of the Net OPEB liability to changes in the healthcare cost trend rate assumption. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (6.5%) or 1% higher (8.5%) than the current healthcare cost trend rates:

| | 1% Decrease (8.0% Decreasing to 2.25%) | Healthcare Cost Trend Rates (9.0% Decreasing to 3.25%) | 1% Increase (10.0% Decreasing to 4.25%) |
|-----------------------------|---|--|--|
| County's net OPEB liability | \$ 28,358,583 | \$ 35,181,672 | \$ 43,173,430 |



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REQUIRED SUPPLEMENTARY INFORMATION

BERRIEN COUNTY POSTEMPLOYMENT HEALTHCARE PLAN

Required Supplementary Information

Postemployment Healthcare Plan

Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios

| | 2017 |
|---|----------------------|
| Total OPEB liability | |
| Service cost | \$ 999,955 |
| Interest | 5,128,165 |
| Changes in benefit terms | 424,030 |
| Differences between expected and actual experience | (2,951,797) |
| Benefit payments, including refunds of employee contributions | (3,814,978) |
| Net change in total OPEB liability | <u>(214,625)</u> |
| Total OPEB liability, beginning of year | <u>68,944,098</u> |
| Total OPEB liability, end of year | <u>68,729,473</u> |
| Plan fiduciary net position | |
| Employer contributions | 4,250,834 |
| Net investment income | 4,070,314 |
| Benefit payments, including refunds of employee contributions | (3,814,978) |
| Net change in plan fiduciary net position | <u>4,506,170</u> |
| Plan fiduciary net position, beginning of year | <u>30,719,499</u> |
| Plan fiduciary net position, end of year | <u>35,225,669</u> |
| County's net OPEB liability | <u>\$ 33,503,804</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 51.25% |
| Covered payroll | <u>\$ 29,730,309</u> |
| County's net OPEB liability as a percentage of covered payroll | 112.69% |

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

Required Supplementary Information
Postemployment Healthcare Plan

Schedule of the Employer's Net OPEB Liability

| Fiscal Year Ended | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability | Plan Fiduciary Net Position as Percentage of Total OPEB Liability | Covered Payroll | Net OPEB Liability as Percentage of Covered Payroll |
|-------------------|----------------------|-----------------------------|--------------------|---|-----------------|---|
| 12/31/2017 | \$ 68,729,473 | \$ 35,225,669 | \$ 33,503,804 | 51.25% | \$ 29,730,309 | 112.7% |

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

Required Supplementary Information
Postemployment Healthcare Plan

Schedule of Investment Returns

| Fiscal Year Ended | Annual Money-Weighted Rate of Return, Net of Investment Expense |
|-------------------|---|
| 12/31/2017 | 13.12% |

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

Required Supplementary Information
Postemployment Healthcare Plan

Schedule of Employer Contributions

| Fiscal Year Ended | Actuarial Valuation Date | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------------|--------------------------|-------------------------------------|--|----------------------------------|-----------------|--|
| 12/31/2017 | 12/31/2015 | \$ 4,250,834 | \$ 4,250,834 | \$ - | \$ 29,730,309 | 14.3% |

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation date Actuarially determined contribution rates are calculated as of December 31 that is 12 months prior to the beginning of the fiscal year for which the contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 28 years (5.95 for Riverwood) |
| Asset valuation method | 5-year smoothed market; 25% corridor |
| Inflation | 2.75% |
| Salary increases | 3.25-6.25% including inflation |
| Investment rate of return | 7.50% net of OPEB plan investment expense, including inflation |
| Mortality rates | Fully generational RP-2014 Healthy Annuitant Tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. Disabled postemployment: Fully generational RP-2014 Disabled Annuitant Tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. Pre-Retirement: Fully generational RP-2014 Employee Tables after adjustment to the base year 2006 for males and females with MP-2015 mortality improvement scales. |
| Healthcare trend rates | Based on the Getzen Model, with trend starting at 9.0% and gradually decreasing to an ultimate trend rate of 3.25% |
| Aging factors | Based on the 2013 SOA Study "Health Care Costs - From Birth to Death" |

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT
ON THE SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BY COMPONENT

June 27, 2018

Board of Commissioners
Berrien County Postemployment Healthcare Plan
St. Joseph, Michigan

Report on the Schedule

We have audited the fiduciary net position as of December 31, 2017 and the changes in fiduciary net position for the year then ended, included in the accompanying Schedule of Changes in Fiduciary Net Position by Component (the "Schedule") of the *Berrien County Postemployment Healthcare Plan*. We have also audited the fiduciary net position of each individual employer as of December 31, 2017 and the changes in fiduciary net position of each employer for the year then ended, included in the accompanying Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule 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 the Schedule that is free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the fiduciary net position and the changes in fiduciary net position included in the Schedule, 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 fiduciary net position and the changes in fiduciary net position included in the Schedule 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 fiduciary net position and the changes in fiduciary net position included in the Schedule.

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 Schedule referred to above presents fairly, in all material respects, the fiduciary net position of the Berrien County Postemployment Healthcare Plan as of December 31, 2017, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of each individual employer as of December 31, 2017, and the changes in fiduciary net position of each individual employer for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of the Berrien County Postemployment Healthcare Plan management, Board of Trustees, participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Johnson LLC

**BERRIEN COUNTY
POSTEMPLOYMENT HEALTHCARE PLAN**

**Schedule of Changes in Fiduciary Net Position by Component
For the Year Ended December 31, 2017**

| | County General | Mental Health | Total |
|---|----------------------|---------------------|----------------------|
| Additions | | | |
| Investment income: | | | |
| Net change in fair value of investments | \$ 3,788,310 | \$ 281,995 | \$ 4,070,305 |
| Interest and dividends | 8 | 1 | 9 |
| | <hr/> | <hr/> | <hr/> |
| Total investment income | 3,788,318 | 281,996 | 4,070,314 |
| Contributions - | | | |
| Employer | 4,250,834 | - | 4,250,834 |
| | <hr/> | <hr/> | <hr/> |
| Total additions | 8,039,152 | 281,996 | 8,321,148 |
| Deductions | | | |
| Retiree healthcare benefit payments | 3,651,658 | 163,320 | 3,814,978 |
| | <hr/> | <hr/> | <hr/> |
| Change in net position | 4,387,494 | 118,676 | 4,506,170 |
| Net position, beginning of year | 26,389,036 | 4,330,463 | 30,719,499 |
| | <hr/> | <hr/> | <hr/> |
| Net position, end of year | <u>\$ 30,776,530</u> | <u>\$ 4,449,139</u> | <u>\$ 35,225,669</u> |