

**MEMPHIS LIGHT, GAS AND WATER DIVISION**

**OTHER POST EMPLOYMENT BENEFITS TRUST**

Financial Statements  
December 31, 2018 and 2017

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS TRUST**

Financial Statements

For the Years ended December 31, 2018 and 2017

**Table of Contents**

**Introductory Section:**

Letter of Transmittal

OPEB Trust Investment Committee Members

Professional Consultants

**Financial Section:**

Independent Auditor's Report..... 1-3

Management's Discussion and Analysis ..... 4-11

Financial Statements:

Statements of Fiduciary Net Position .....12

Statements of Changes in Fiduciary Net Position.....13

Notes to the Financial Statements..... 14-34

**Required Supplementary Information:**

Schedule of Changes in Net OPEB Liability .....35

Schedule of Employer Contributions.....36

Schedule of Investment Returns .....37

Notes to the Required Schedules .....38

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards* ..... 39-40

Schedule of Prior Year Findings and Questioned Costs.....41



MEMPHIS LIGHT, GAS AND WATER DIVISION

## Letter of Transmittal

### MEMPHIS LIGHT, GAS AND WATER DIVISION OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

#### To the Board of Commissioners and OPEB Trust Investment Committee:

We are pleased to submit the Annual Report of Memphis Light, Gas and Water Division (“MLGW”) Other Post Employment Benefits Trust (the “OPEB Trust”) for the year ended December 31, 2018. This report has been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”).

Responsibility for the accuracy and presentation of the information provided is the full responsibility of the management of MLGW. Disclosures necessary to assist the reader in understanding of the financial statements have been included.

MLGW OPEB Trust’s financial statements have been audited by Banks, Finley, White & Co., CPAs, licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW OPEB Trust for the year ended December 31, 2018, are free from material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MLGW OPEB Trust’s financial statements for the year ended December 31, 2018, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of the report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management’s Discussion and Analysis (“MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. MLGW OPEB Trust’s MD&A can be found immediately following the report of the independent auditors.

**Profile of the “Trust”** – MLGW and the Board of Commissioners of MLGW (the “Trustee”) established the OPEB Trust, effective January 1, 2007. The Trust holds assets that are available



In accordance with the OPEB Trust agreement, the OPEB Trust is permitted to pay or reimburse MLGW for benefits paid under the MLGW medical benefits plan. The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits are periodically reset and are currently at 25% of costs for medical and drug benefits and 40% for life insurance and AD&D.

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the "Trustee" and establishes the policies of the MLGW OPEB Trust. The Trustee shall fulfill the duties of the fiduciary responsible for MLGW OPEB Trust's administration and shall have overall control of the administration of the Plan, with all powers and discretion necessary to enable it to properly carry out its duties. The Trustee delegated the responsibility and authority to administer the assets of the OPEB Trust to the OPEB Trust Investment Committee.

The OPEB Trust Investment Committee is comprised of one member of the Board of Commissioners of the Division (who serves as Chairman), the President and CEO of the Division, the Sr. Vice President, CFO, & CAO and Secretary-Treasurer of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

**Funded Status** - As of December 31, 2018, the plan was 60.2% funded. The Total OPEB Liability for benefits was \$707,219,311 and the Plan Fiduciary Net Position was \$425,748,492, resulting in a Net OPEB Liability ("NOL") of \$281,470,819. The covered employee payroll was \$169,605,389 and the ratio of the NOL to the covered employee payroll was 165.96%.

**Acknowledgements** - The preparation of this report was made possible by the overall dedication of MLGW's Finance Division. We would like to express our appreciation to the members of the Finance Division who contributed to the preparation of this report. Special thanks must also be given to Banks, Finley, White & Co., CPAs for their efficient and timely completion of this year's audit.

Respectfully submitted,



**Jarl "J.T." Young**

President and CEO



**Dana Jeanes**

Sr. V.P., CFO, CAO  
Secretary-Treasurer

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**  
Memphis, Tennessee

***OPEB Trust Investment Committee Members***



***Steven Wishnia***  
***Chairman***



***J. T. Young***  
***Vice Chairman***



***Dana Jeanes***  
***Secretary-Treasurer***



***Nicholas Newman***  
***Employee Member***  
***Term Expires: 12/31/2021***



***Nedra Bailey***  
***Employee Member***  
***Term Expires: 12/31/2019***



***Patricia Howard***  
***Retired Member***  
***Term Expires: 12/31/2020***



***Pamela Z. Clary***  
***Citizen Member***  
***Term Expires: 6/30/2020***

The Memphis Light, Gas and Water Division OPEB Trust (“OPEB Trust”) was established for the exclusive benefit of MLGW’s retired employees and their dependents (who meet the eligibility requirements) to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable and are for the sole and exclusive purpose of funding health and welfare benefits of the eligible participants, and the cost of operating and administering the OPEB Trust. The OPEB Trust is administered by the MLGW OPEB Trust Investment Committee.

## ***PROFESSIONAL CONSULTANTS***

The MLGW OPEB Trust contracts with several independent consultants to provide services that are vital to the professional and successful operation of the plan.

### ***INVESTMENT CONSULTANT***

#### **Gavion Investment Consulting**

Robert A. Longfield, Jr., CFA  
Chief Executive Officer

Curtis Williams  
Senior Consultant

### ***CUSTODIAN***

#### **Northern Trust Corporation**

Clayton Robinson  
Account Manager-Trust

Kristi Kamykowski  
Vice President, Client Operational & Reporting Solutions

### ***ACTUARY CONSULTANT***

#### **Segal Consulting**

Leon F. (Rocky) Joyner, Jr., FCA, ASA, EA, MAAA  
Vice President and Consulting Actuary

David A. Berger, FCA, ASA, MAAA, EA  
Vice President and Consulting Actuary

### ***LEGAL CONSULTANT***

#### **Evans & Petree, PC**

Frank N. Stockdale Carney  
Shareholder

Katharine A. Jungkind  
Shareholder

Eugene Thornton III  
Shareholder



## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners and Management  
of Memphis Light, Gas and Water Division  
Memphis, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying statements of plan net position of the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (the "OPEB Trust"), a fiduciary fund of the City of Memphis, Tennessee, as of December 31, 2018 and 2017, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the OPEB Trust'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 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 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 OPEB Trust as of December 31, 2018 and 2017, and the respective changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Emphasis of Matter***

As discussed in Note 1, the accompanying statements are those of Memphis Light, Gas and Water Division Other Post Employment Benefits Trust Fund. The statements do not purport to present the financial position of the Light, Gas and Water Division of the City of Memphis or the City of Memphis as of December 31, 2018, and the respective changes in their financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; schedule of funding progress; and schedule of contributions from all sources on pages 4 through 11 and pages 35 through 38, respectively, 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 consists of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.





### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the OPEB Trust's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of the OPEB Trust'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 solely 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 the effectiveness on the 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 Memphis Light, Gas and Water Division Other Post Employment Benefits Trust's internal control over financial reporting and compliance.

Memphis, Tennessee

May 31, 2019

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST  
Management's Discussion and Analysis  
For the Years Ended December 31, 2018 and December 31, 2017**

The following management discussion and analysis for the Memphis Light, Gas and Water Division ("MLGW") Other Post Employment Benefits Trust ("OPEB Trust"), formerly Trust for Retiree Medical and Life Insurance Benefits (the "Trust"), provides a narrative overview and analysis of the OPEB Trust financial activities and funding conditions for the years ended December 31, 2018 and December 31, 2017. Please read it in conjunction with the OPEB Trust's financial statements, notes, and required supplementary information, which follow this section.

The MLGW OPEB Trust was established for the purpose of providing for the funding and payment of healthcare benefits for retired and disabled employees of MLGW and their dependents and beneficiaries.

**FINANCIAL HIGHLIGHTS**

- Total OPEB Trust fiduciary net position at December 31, 2018 was \$425.7 million, an increase of \$6.0 million, or 1.4%, over total fiduciary net position at December 31, 2017.
- Cash and cash equivalents increased \$1.1 million from \$22.2 million at December 31, 2017 to \$23.3 million at December 31, 2018.
- Investments at fair value were \$405.7 million at December 31, 2018, an increase of \$7.7 million, or 1.9%, over investments of \$398.0 million at December 31, 2017.
- The OPEB Trust experienced gains of \$6.0 million and \$73.4 million in 2018 and 2017, respectively.
- Total additions to OPEB Trust fiduciary net position were \$34.7 million during 2018, a decrease of \$68.2 million compared to 2017.
- Net investment activities income decreased by \$72.0 million, or 124.8%, primarily as a result of the \$72.7 million decrease in net appreciation in the fair value of investments. For 2018, net depreciation in fair value of investments totaled \$22.0 million compared with net appreciation in the fair value of investments of \$50.7 million for 2017.
- Total deductions from OPEB Trust fiduciary net position were \$28.7 million during 2018, a decrease of \$0.8 million versus 2017.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements of the OPEB Trust are the Statements of Fiduciary Net Position, the Statements of Changes in Fiduciary Net Position, and the Notes to the Financial Statements. This report also contains required supplementary information in addition to the basic financial statements. Statements are shown for the most recent and previous years for comparison and analysis of changes in individual line items. The statements are presented using the accrual basis of accounting.

The Statements of Fiduciary Net Position are a measure of the OPEB Trust's assets and liabilities at the close of the year. Total assets less liabilities equal net position held in the OPEB Trust for the future payment of benefits.

The Statements of Changes in Fiduciary Net Position present how the OPEB Trust's net position changed during the year as a result of contributions, investment income (loss), operating expenses, and insurance premiums paid.

The OPEB Trust shall be used exclusively to provide benefits for OPEB Trust participants and their beneficiaries, and for the cost of operating and administering the OPEB Trust. MLGW may make payments to provide benefits for retired employees or their beneficiaries as they become due under the terms of the OPEB Trust.

The Notes to the Financial Statements are a fundamental part of the financial statements and provide important information to support the amounts in the financial statements. The Notes describe accounting policies, funded status, actuarial methods and significant assumptions used to value MLGW's OPEB obligation.

The Required Supplementary Information consists of a Schedule of Changes in Net OPEB Liability, a Schedule of Employer Contributions, a Schedule of Investment Returns, and Notes to the Required Schedules.

*See next page*



## ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION

Condensed financial information comparing MLGW's OPEB Trust fiduciary net position for the past three years is presented below:

<b>Table 1</b>					
<b>Condensed OPEB Trust Fiduciary Net Position</b>					
<b>December 31</b>					
	<u>2018</u>	<u>2017</u>	<u>FY18 - FY17</u> <u>Percentage</u> <u>Change</u>	<u>2016</u>	<u>FY17 - FY16</u> <u>Percentage</u> <u>Change</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 23,315,970	\$ 22,158,989	5.2%	\$ 4,230,681	423.8%
Investments, at fair value*	405,680,559	397,988,618	1.9%	341,051,984	16.7%
Receivables	1,271,246	1,200,390	5.9%	2,625,285	-54.3%
Collateral held for securities on loan	667,853	3,250,532	-79.5%	4,022,280	-19.2%
<b>Total assets</b>	<u>430,935,628</u>	<u>424,598,529</u>	<u>1.5%</u>	<u>351,930,230</u>	<u>20.6%</u>
<b>Liabilities</b>					
Employer	597,649	671,516	-11.0%	643,660	4.3%
Liability for securities purchased and accrued expenses	3,921,634	950,480	312.6%	936,185	1.5%
Collateral subject to return to borrowers	667,853	3,250,532	-79.5%	4,022,280	-19.2%
<b>Total liabilities</b>	<u>5,187,136</u>	<u>4,872,528</u>	<u>6.5%</u>	<u>5,602,125</u>	<u>-13.0%</u>
<b>Net position restricted for OPEB</b>	<u>\$ 425,748,492</u>	<u>\$ 419,726,001</u>	<u>1.4%</u>	<u>\$ 346,328,105</u>	<u>21.2%</u>
*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.8 million and \$9.7 million at 2018 and 2017 respectively, the initial capital contribution less distributions. As of this report date, the fair market value statements from the general partner have not been provided for the years ended December 31, 2018 and 2017.					

### Assets

#### 2018 Compared to 2017

At December 31, 2018, total assets were \$430.9 million, an increase of \$6.3 million, or 1.5%, over 2017. The increase in total assets is primarily due to the inflow of funds from contributions, and investment earnings, offset in part by a decrease in collateral held for securities on loan.

The OPEB Trust's assets consist primarily of investments in domestic and international equities, domestic and international fixed income, domestic and international special strategies, real estate, life settlement funds, and short-term investments. For 2018, investments at fair value totaled \$405.7 million, an increase of \$7.7 million, or 1.9% over 2017. The increase in total investments is partially offset by a \$2.6 million decrease in collateral held for securities on loan under the Division's securities lending program compared to 2017.

## **ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION (Continued)**

### ***Assets (continued)***

#### *2017 Compared to 2016*

At December 31, 2017, total assets were \$424.6 million, an increase of \$72.7 million, or 20.6%, over 2016. The increase in total assets is primarily due to the inflow of funds from contributions, and investment earnings, offset in part by a decrease in collateral held for securities on loan.

The OPEB Trust's assets consist primarily of investments in domestic and international equities, domestic and international fixed income, domestic and international special strategies, real estate, hedge funds, and short-term investments. For 2017, investments at fair value totaled \$398.0 million, an increase of \$56.9 million, or 16.7% over 2016.

The increase in total investments is partially offset by a \$1.0 million decrease in collateral held for securities on loan under the Division's securities lending program.

### ***Liabilities***

#### *2018 Compared to 2017*

At December 31, 2018, total liabilities were \$5.2 million, an increase of \$0.3 million, or 6.5% from \$4.9 million at 2017. The increase is primarily derived from the liability for securities purchased and accrued expenses, offset by a decrease in collateral subject to return to borrowers under the OPEB Trust's securities lending program.

#### *2017 Compared to 2016*

At December 31, 2017, total liabilities were \$4.9 million, a decrease of \$1.0 million, or 13.0% from \$5.6 million at 2016. The decrease is primarily derived from the decrease in collateral subject to return to borrowers under the OPEB Trust's securities lending program.

### ***Fiduciary Net Position***

#### *2018 Compared to 2017*

At December 31, 2018, the OPEB Trust fiduciary net position was \$425.7 million, an increase of \$6.0 million, or 1.4%, over December 31, 2017 net position. The increase in net position is primarily due to contributions and investment earnings of \$34.7 million, offset in part by benefits and administrative expenses of \$28.7 million. The growth in net position is principally related to the increase of employer contributions, offset by net depreciation in fair value of investments across the OPEB Trust's portfolio of asset classes and benefits paid.

## ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION (Continued)

### *Fiduciary Net Position (continued)*

#### *2017 Compared to 2016*

At December 31, 2017, the OPEB Trust fiduciary net position was \$419.7 million, an increase of \$73.4 million, or 21.2%, over December 31, 2016 net position. The increase in net position is primarily due to contributions and investment earnings of \$102.9 million, offset in part by benefits and administrative expenses of \$29.5 million. The growth in net position is principally related to the increase of employer and plan member contributions and net appreciation in fair value of investments across the OPEB Trust's portfolio asset classes, offset by benefits paid.

*See next page*



## ANALYSIS OF CHANGES IN OPEB TRUST FIDUCIARY NET POSITION

Condensed financial information comparing MLGW's changes in OPEB Trust fiduciary net position for the past three years is presented below:

	<u>2018</u>	<u>2017</u>	<u>FY18 - FY17</u> <u>Percentage</u> <u>Change</u>	<u>2016</u>	<u>FY17 - FY16</u> <u>Percentage</u> <u>Change</u>
<b>Additions</b>					
Contributions	\$ 48,971,640	\$ 45,183,806	8.4%	\$ 42,496,354	6.3%
Net investment activities income (loss)	(14,301,548)	57,649,482	-124.8%	27,279,229	111.3%
Securities lending activities income	28,703	21,714	32.2%	56,649	-61.7%
Total additions	<u>34,698,795</u>	<u>102,855,002</u>	<u>-66.3%</u>	<u>69,832,232</u>	<u>47.3%</u>
<b>Deductions</b>					
Benefit payments	27,876,371	28,764,928	-3.1%	26,671,282	7.8%
Administrative expense	799,933	692,178	15.6%	923,325	-25.0%
Total deductions	<u>28,676,304</u>	<u>29,457,106</u>	<u>-2.7%</u>	<u>27,594,607</u>	<u>6.7%</u>
<b>Net increase</b>	<b>6,022,491</b>	<b>73,397,896</b>	<b>-91.8%</b>	<b>42,237,625</b>	<b>73.8%</b>
<b>Net position restricted for OPEB</b>					
Beginning of year	<u>419,726,001</u>	<u>346,328,105</u>	<u>21.2%</u>	<u>304,090,480</u>	<u>13.9%</u>
End of year	<u>\$ 425,748,492</u>	<u>\$ 419,726,001</u>	<u>1.4%</u>	<u>\$ 346,328,105</u>	<u>21.2%</u>

### *Change in Net Position*

#### *2018 Compared to 2017*

The change in net position in 2018 of \$6.0 million was 91.8% less than the prior year's increase of \$73.4 million as a result of a decrease in net investment activities income. Net investment activities income decreased by \$72.0 million, or 124.8%, due to net depreciation in the fair value of investments across the OPEB Trust's portfolio of asset classes. The investment depreciation was primarily affiliated with the international equity mutual funds and domestic common stock funds.

#### *2017 Compared to 2016*

The change in net position in 2017 of \$73.4 million was 73.8% more than the prior year's increase of \$42.2 million as a result of an increase in net investment activities income. Net investment activities income increased by \$30.4 million, or 111.3%, due to higher net appreciation in the fair value of investments across the OPEB Trust's portfolio asset classes. The higher investment appreciation was primarily affiliated with the international equity mutual funds and domestic common stock funds.

## ANALYSIS OF CHANGES IN OPEB TRUST FIDUCIARY NET POSITION (Continued)

### *Additions*

#### *2018 Compared to 2017*

Total additions to fiduciary net position decreased by \$68.2 million, or 66.3%, compared to 2017, primarily as a result of a decrease in net investment activities income of \$72.0 million and an increase in total contributions of \$3.8 million. The increase in total contributions was primarily due to MLGW's contributions in relation to the actuarially determined contributions ("ADC") which totaled \$48.3 million, an increase of 2.8%, versus 2017.

#### *2017 Compared to 2016*

Total additions to fiduciary net position increased by \$33.0 million, or 47.3%, versus 2016, primarily as a result of an increase in net investment activities income of \$30.4 million and an increase in total contributions of \$2.7 million. The increase in total contributions was primarily due to MLGW's contributions in relation to the ADC which totaled \$45.2 million, an increase of 6.3%, versus 2016.

### *Deductions*

#### *2018 Compared to 2017*

Total deductions from fiduciary net position amounted to \$28.7 million for 2018, down from \$29.5 million for 2017. The decrease is primarily due to a \$0.8 million decrease in medical and prescription drug claims paid. Amounts recognized in relation to OPEB related expenses totaled \$35.0 million and \$35.6 million for 2018 and 2017, respectively.

#### *2017 Compared to 2016*

Total deductions from fiduciary net position amounted to \$29.5 million for 2017, up from \$27.6 million for 2016. The increase is primarily due to a \$2.1 million increase in medical and prescription drug claims paid. Amounts recognized in relation to OPEB related expenses totaled \$35.6 million and \$34.1 million for 2017 and 2016, respectively.

## **ECONOMIC FACTORS**

Income for the OPEB Trust is derived primarily from employer contributions and investment income. Employer contributions are based on the recommendation of an actuarial valuation.

## **REQUESTS FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Memphis Light, Gas and Water Division  
Sr. VP, CFO & CAO (Secretary-Treasurer)  
P.O. Box 430  
Memphis, TN 38101-0430



**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**

**Statements of Fiduciary Net Position**

	<b>December 31</b>	
	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 23,315,970	\$ 22,158,989
Investments, at Fair Value:		
Equity Funds:		
Common stock - domestic	99,038,098	101,696,872
Equity mutual fund - international	55,751,346	62,582,116
Equity mutual index fund - domestic	36,747,047	38,448,048
Equity ETF	24,769,041	32,738,756
Fixed Income Funds:		
Corporate Bond mutual funds - domestic	26,717,417	29,206,753
Corporate Bond mutual funds - international	-	15,446,239
Convertible Bond mutual funds - domestic	8,528,803	7,816,985
Global Bond fund - international	23,145,953	18,805,416
Special Strategies Funds:		
Private equity funds - domestic*	37,252,324	19,846,505
Private equity funds - international	5,863,997	5,736,536
Private debt funds - domestic	2,588,850	3,087,880
Distressed debt funds - domestic	12,675,815	8,720,597
Distressed debt funds - international	21,682,302	17,582,621
Life Settlement Funds	11,864,413	6,306,617
Real Estate Funds	39,055,153	29,966,677
Total investments	<u>405,680,559</u>	<u>397,988,618</u>
Receivables:		
Employer	597,649	671,516
Interest and dividends	267,555	230,469
Securities sold and accrued income	406,042	298,405
Total receivables	<u>1,271,246</u>	<u>1,200,390</u>
Collateral held in trust for securities on loan	<u>667,853</u>	<u>3,250,532</u>
Total assets	<b>430,935,628</b>	<b>424,598,529</b>
<b>Liabilities</b>		
Employer	597,649	671,516
Securities purchased and accrued expenses	3,921,634	950,480
Collateral subject to return to borrowers	667,853	3,250,532
Total liabilities	<u>5,187,136</u>	<u>4,872,528</u>
<b>Net position restricted for other post employment benefits</b>	<u><b>\$ 425,748,492</b></u>	<u><b>\$ 419,726,001</b></u>

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

\*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.8 million and \$9.7 million at 2018 and 2017, respectively, the initial capital contribution less distributions. As of this report date, the fair market value statements from the general partner have not been provided for the years ended December 31, 2018 and 2017.

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**

**Statements of Changes in Fiduciary Net Position**

	<b>Years Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Additions</b>		
Contributions:		
Employer	\$ 48,971,640	\$ 45,183,806
Total contributions	<u>48,971,640</u>	<u>45,183,806</u>
Investment Activities Income:		
Net appreciation (depreciation) in fair value of investments*	(22,014,468)	50,652,557
Interest income	3,320,466	2,582,108
Real estate income	313,077	665,303
Dividend income	5,015,878	3,836,004
Other income	<u>3,950</u>	<u>19,814</u>
Investment activities income (loss)	<u>(13,361,097)</u>	<u>57,755,786</u>
Less investment activities expense	<u>940,451</u>	<u>106,304</u>
Net investment activities income (loss)	<u>(14,301,548)</u>	<u>57,649,482</u>
Securities Lending Activities:		
Securities lending income	74,760	42,382
Securities Lending Expenses:		
Borrower rebates	(39,186)	(15,247)
Management fees	<u>(6,871)</u>	<u>(5,421)</u>
Total securities lending expenses	<u>(46,057)</u>	<u>(20,668)</u>
Net securities lending activities income	<u>28,703</u>	<u>21,714</u>
Total investment activities income (loss)	<u>(14,272,845)</u>	<u>57,671,196</u>
Total additions	<u>34,698,795</u>	<u>102,855,002</u>
<b>Deductions</b>		
Benefit payments	27,876,371	28,764,928
Administrative expense	<u>799,933</u>	<u>692,178</u>
Total deductions	<u>28,676,304</u>	<u>29,457,106</u>
Change in net position	<u>6,022,491</u>	<u>73,397,896</u>
<b>Net position restricted for other post employment benefits</b>		
Beginning of year	<u>419,726,001</u>	<u>346,328,105</u>
End of year	<u>\$ 425,748,492</u>	<u>\$ 419,726,001</u>

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

\*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.8 million and \$9.7 million at 2018 and 2017, respectively, the initial capital contribution less distributions. As of this report date, the fair market value statements from the general partner have not been provided for the years ended December 31, 2018 and 2017.

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS TRUST**

**Notes to the Financial Statements**

**December 31, 2018 and 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

By an agreement dated January 1, 1995, by and between Memphis Light, Gas and Water Division (“MLGW”) and the Board of Commissioners of Memphis Light, Gas and Water Division (the “Trustee”), the Memphis Light, Gas and Water Division Trust for Retiree Medical and Life Insurance Benefits (the “Trust”) was established. The Trust was established as a grantor trust in accordance with Subtitle 1 of the Internal Revenue Code of 1986, as amended. The Trust held assets that could be used to assist MLGW in providing medical and life insurance benefits for retired employees of MLGW.

By an agreement dated December 4, 2007, but effective as of January 1, 2007, by and between MLGW and the Trustee, the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (“OPEB Trust”) was established. The OPEB Trust is for the exclusive benefit of MLGW’s retired employees and their dependents, who meet the eligibility requirements, to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable. The assets are for the sole and exclusive purpose of funding for health and welfare benefits of the eligible participants and the cost of operating and administering the OPEB Trust. The OPEB Trust is administered by the MLGW OPEB Investment Committee.

**Basis of Presentation**

The financial statements present only the Other Post Employment Benefits Trust Fund in conformity with accounting principles generally accepted in the United States of America that are applicable to a fiduciary fund of a governmental trust unit. The accompanying financial statements present the separate financial position and results of operations for the Other Post Employment Benefits Trust Fund, but do not present the financial position or results of operations of MLGW, a division of the City of Memphis (the City). Accordingly, the accompanying disclosures are related separately to the Other Post Employment Benefits Trust Fund, as applicable, and not collectively to MLGW. These statements are not intended to present the financial position of the City or the results of the City’s operations.



## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Basis of Accounting**

The OPEB Trust's financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States that are applicable to a fiduciary fund of a governmental trust unit.

### **Recent Accounting Standards**

In March 2017, GASB issued Statement No. 85, *Omnibus 2017 (GASB 85)*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017. The OPEB Trust implemented this standard in 2018. Pursuant to GASB 85, paragraph 13, since contributions to the MLGW OPEB Trust are not based on a measure of pay, no measure of payroll is required to be shown as required supplementary information.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2018. The OPEB Trust has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

### **Cash and Cash Equivalents**

The OPEB Trust considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### **Investments**

The OPEB Trust's investments are reported at fair value. Securities traded on national securities exchanges are valued at the last reported sales price on the last business day of the fiscal year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (continued)

The Trust's investment in a limited partnership is reported at estimated fair value based on information obtained from the partnership's unaudited financial statements. The fair value of the limited partnership investment is estimated by the general partner of the limited partnership in the absence of readily ascertainable market values.

The general partner's estimate of value may differ significantly from the value that would have been used had a ready market existed for the securities and the differences could be material. In 2009, the Trust's limited partnership investment in Delta Venture Partners I, L.P. was affected by the financial market crisis, which drove down market valuations of investment securities.

During 2009, the investment was removed from the Statement of Net Position as the limited partnership's market value fell well below zero. The limited partnership's financial statements are prepared in conformity with the accounting practices prescribed or permitted by the Small Business Administration ("SBA") guidelines. The Trust's limited partnership investment was valued at \$191,168 as of December 31, 2018 by the general partner. Management determined that the limited partnership investment would not be included in the OPEB Trust investment portfolio.

The international equity funds invest in foreign and domestic equity securities. The OPEB Trust's investments in the international equity funds are valued at fair value, as determined by the respective trustee/custodian of the funds based on the fair value of the underlying investments held by the funds. In the absence of trades, the custodian's (Northern Trust) estimates of the market value may differ significantly from the value that would have been used had a ready market existed for the securities and the difference could be material.

The OPEB Trust investment in the distressed debt limited partnerships is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Investor Shareholder Statements and annual audited financial statements. The distressed debt limited partnerships are Courage Credit Opportunities Fund II, L.P., Courage Credit Opportunities Offshore Fund III, LP., Capital Point Partners II, L.P., GoldenTree Distressed Debt Fund (Cayman), L.P., GoldenTree Distressed Fund 2014 (Cayman), GoldenTree Distressed Fund III, and Courage Credit IV.

The fair value of investments in Courage Credit Opportunities Fund II, L.P. and Courage Credit Opportunities Offshore Fund III, LP. is determined by the general partner of the limited partnership, in its sole discretion, in a reasonable manner.

The fair value of investments in Capital Point Partners II, L.P. is measured based on national securities exchanges for marketable assets or the National Market System of the National Association of Securities Dealers Automated Quotations System for assets not traded on a

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (continued)

national securities exchange. All other assets are valued by the general partner in such a manner as may be determined by the partnership agreement.

The fair value of investments in Courage Credit IV is determined by any assets of the Partnership distributed by the Partnership in-kind shall be valued by the General Partner (or its designee) at the fair value thereof as reasonably determined by the General Partner (or its designee), taking into account any related fees and expenses incurred in connection with the disposition of such assets. The General Partner (or its designee) shall employ a pricing service approved by the Advisory Committee, such as an investment banking firm, for purposes of determining the fair value of any Partnership Investments or other assets distributed in-kind by the Partnership.

In accordance with the partnership agreement, the fair value of investments in the GoldenTree Distressed Debt Fund (Cayman), L.P. and GoldenTree Distressed Fund 2014 (Cayman) is determined by the general partner in accordance with the limited partnership's written valuation policy. For purposes of any security distribution prior to final distribution, the fair value will be determined by a nationally recognized independent valuation agent.

The fair value of investments in Golden Tree Distressed Debt III is measured based on the following: Although the Investment Manager uses its best judgment and good faith in estimating the fair value of investments, there are inherent limitations in any estimation technique. Future events may affect the estimates of fair value and the effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (an exit price).

The OPEB Trust investment in the private equity limited partnerships is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Statements and annual audited financial statements. The private equity limited partnerships are Pharos Capital Partners III, L.P., Memphis Biomed Ventures III, LP., The Energy & Minerals Group Fund II, L.P, GPB Holdings, and Vendata Cap-McCoy Inv III.

The fair value of investments in Pharos Capital Partners III, L.P. is measured based on the marketable securities primarily traded on a securities exchange, the average of their closing sale prices on the principal securities exchange on which they are traded for each business day during the ten-day period commencing five days prior to the date of the relevant distribution or date of determination and ending five days following the date of such distribution; and the principal market for over-the-counter market, the average of their closing sales prices on each business day during such ten-day period, as published by NASDAQ or any similar organization. All other securities or other assets the fair value will be determined by the General Partner in good faith.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (continued)

The fair value of investments in Memphis Biomed Ventures III, LP. is measured based on the following: (i) securities for which market quotations are readily available shall be valued at the last trade on the exchange or if trade quotes are not available, generally at the closing bid price (or average of bid prices), last quoted by established over-the-counter quotation services; and (ii) securities convertible into, exchangeable for or exercisable to purchase securities for which market quotations are readily available shall be valued at the prices for underlying securities, determined in the same manner. Securities subject to investment letter or other restrictions on free marketability shall be valued by the General Partner by making an appropriate adjustment to the value determined hereunder to reflect the effect of the restrictions on transfer. All other securities or other assets the fair value will be determined by the General Partner in good faith.

The fair value of investments in Energy & Minerals Group Fund II, L.P. is measured based on the marketable securities listed on national securities exchanges or quoted on a national market system will be valued at the last sale price or in absence of a sale, the last bid price. Marketable Securities traded in the over the counter market and reported in inter-dealer quotation system will be valued at the closing bid price. Securities for which prices are regularly quoted by at least two independent recognized dealers will be valued at the most recent market price. All other securities and all assets of the Partnership which are not securities will be valued at cost or such other value as may be reasonably determined by the General Partner.

The OPEB Trust investment in the private debt limited partnership of WP Private Debt Co-Investment Fund III (Cayman), L.P. is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Statements and annual audited financial statements. The fair value of investments in WP Private Debt Co-Investment Fund III (Cayman), L.P. is measured based on the Partnership's assets, and shall be valued quarterly and are determined by the General Partner. Securities or other property distributed to the Partners shall be valued at the time of distribution. All securities and property shall be valued by the General Partner in such manner as it may reasonably determine in good faith.

The OPEB Trust investment in the private debt limited partnership of GPB Capital Holdings, LLC, is reported at fair value. Pursuant to the GPB's Valuation Policy, GPB's Valuation Committee ("VC") is responsible for the determination of Portfolio Company valuations, which are conducted in accordance with U.S. GAAP Accounting Standard Codification 820, *Fair Value Measurements* ("ASC 820"). The goal of ASC 820 is to provide a single definition of fair value and to form a consistent framework for the determination of fair value, utilizing the most objective level of inputs available, and to provide increased disclosure requirements for fair value measurements. In order to achieve full compliance, the Firm has developed a consistent valuation process supported by documentation that considers the most objective information available. The fair value of portfolio company investments is measured in good faith by the Firm using consistent valuation techniques for various different types of investments. The fair value of publicly traded securities is based on the closing stock price on the principal exchange



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (continued)

on which the security trades at the end of the respective reporting period, unless the Firm believes that such closing stock price is unreliable. The fair value of restricted stock is measured based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction.

The OPEB Trust investment in the private debt limited partnership of McCoy Investments III, L.P., is reported at fair value. The fair value of investments is based on information received and reported from such funds, including the financial statements and the fair value methods applied by the general partner of each fund investment. Fair Value of the Partnership's fund investments generally starts with the net asset value as reported by the fund investment's management, who determines the value of the fund investment's net asset value. All other securities or other assets the fair value will be determined by the Manager in good faith.

The OPEB Trust investment in the real estate funds is reported at fair value based on the information obtained from the company's Quarterly Statement. The real estate funds are Aureus Global Core Plus Real Estate, LLC, MFIRE Global Partnership Fund II, L.P., TerraCap Partners III, L.P., Intercontinental US Real Estate Investment Fund, LLC, American Strategic Value, and T.A. Realty Core Properties.

The fair value of investments in Aureus Global Core Plus Real Estate, LLC is determined in good faith by the fund's advisors using the following criteria. The value of an asset shall be the market value thereof if market quotations are readily available and are, in the judgment of the fund's advisors, appropriate, taking into account the size and nature of the asset and the rights and restrictions that pertain to the asset. Such assets will be valued at the last trade on the exchange on which they are primarily traded, or if not traded on an exchange, generally at the closing bid price (or average of bid prices) last quoted by an established over-the-counter quotation service. If market values are not readily available, or in the judgment of the fund's advisors do not accurately reflect the value of the asset, the fund's advisors may determine the value of the asset in its reasonable judgment based upon all available relevant information. The fund's advisors shall be entitled to rely upon any valuations provided to it by Core-Q and its Manager, but will not necessarily be bound by such valuations.

The fair value of investments in MFIRE Global Partnership Fund II, L.P. is determined by the General Partner or its designee in its reasonable discretion.

The fair value of investments in TerraCap Partners III, L.P. is not required to report its real estate investments at fair market value, rather investments in real estate are stated at cost, less accumulated depreciation. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value.

The fair value of investments in American Strategic is measured based external appraisal which is done by an independent appraiser no less than quarterly, starting within 15 months of asset

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Investments (continued)**

acquisition. The investment is marked to market quarterly and written up, written down, or held constant as appropriate reflecting the determined values of the asset.

The fair value of real estate investments in Intercontinental is stated at fair value and reviewed and adjusted quarterly based on appraisal reports prepared by independent third party appraisers, reviewed and approved by management. The real estate valuations have been prepared giving consideration to the income capitalization, cost, and sales comparison approach.

The fair value of real estate investments in T.A. Realty Core Properties is calculated using methodologies commonly accepted in the industry, including discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement cost analysis and analysis of recent sales comparables in the market. Real estate investment fair values are determined and reported on a quarterly basis. Quarterly valuations are completed either internally or externally as stated in the applicable organizational documents and/or investment advisory agreements. This is consistent with GAAP requirements and NPRS recommendations.

The fair value of the life settlement investments in Corry Capital is market-based considered from the perspective of a market participant rather than an entity-specific measure. The Partnership uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The fair value of the life settlement investments in Vida Capital is determined by summing the individual values for each policy in the portfolio. Policy values are determined as the present value of future projected cash flows for premiums and maturities under the policy. This calculation involves assumptions for mortality and discount rate, as well as modeling the specific policy provisions for determination of premium requirements to maintain the policy in-force.

The fair value of the life settlement investments in CCA Longevity is determined on a discounted cash flow basis, incorporating current life expectancy and other key assumptions. The Partnership uses an established fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

### **Reclassifications**

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

## 2. OTHER POSTEMPLOYMENT BENEFITS

### Plan Description

Memphis Light, Gas and Water Division, by resolution of its Board of Commissioners, has established, adopted, and maintains a medical benefits (health and welfare) plan (the “Plan”) for its retired employees and their eligible dependents. The Plan is a single-employer defined benefit healthcare plan administered by MLGW.

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the “Trustee” and establishes the policies of the MLGW OPEB Trust. The Trustee shall fulfill the duties of the fiduciary responsible for MLGW OPEB Trust’s administration and shall have overall control of the administration of the Plan, with all powers and discretion necessary to enable it to properly carry out its duties. The Trustee delegated the responsibility and authority to administer the assets of the OPEB Trust to the OPEB Trust Investment Committee.

The OPEB Trust Investment Committee is comprised of one member of the Board of Commissioners of the Division (who serves as Chairman), the President and CEO of the Division, the Sr.Vice President, CFO & CAO (Secretary-Treasurer) of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

The Plan provides postemployment healthcare, prescription drugs, life insurance and accidental death and dismemberment insurance (AD&D) to retirees. Changes to plan benefits must be approved by the MLGW Board of Commissioners. Eligible dependents are provided life insurance, healthcare and prescription drugs. Benefits are payable to retirees and their spouse for their lifetime. Qualified dependents will continue to receive benefits as long as they are qualified under the Plan. Dental, dependent life insurance, cancer, accident and long-term care benefits are available, but are 100% paid by the retiree.

Employees retired under the MLGW Retirement and Pension Plan (“the MLGW Pension Plan”), or disabled with five years of service at any age, or disabled in the line of duty at any age with no years of service restriction are eligible for OPEB benefits. Health care benefits are also offered to qualifying survivors of active employees, who are eligible to retire at the time of death.

Members of the Plan consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Retirees and beneficiaries receiving benefits	3,821	3,696
Active plan members	2,621	2,639
Total	<u>6,442</u>	<u>6,335</u>

## 2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Contributions

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits are periodically reset and are currently at 25% of costs for medical and drug benefits. For life insurance and AD&D, retirees contribute 40% of the cost. For the year ended December 31, 2018, plan members contributed \$6,456,347, or 18.5% of total premiums and expenses, through their required contributions of \$54.30 to \$531.92 (dollars) per month depending on the coverage (retiree only, retiree and spouse, or family) and health plan selected. For 2017, plan members contributed \$6,451,731, or 18.1%, of total premiums and expenses. On the Statement of Changes in Fiduciary Net Position, plan member contributions are netted against benefit payments.

In accordance with the OPEB Trust agreement, MLGW, in its sole discretion, with the approval of the Council of the City of Memphis (“Council”), may at any time make deposits, contributions, and payments of cash or other property to the OPEB Trust to be held and administered in accordance with the terms and provisions of the OPEB Trust. Approximately \$36,704,711 previously held by MLGW for retiree health care benefits was transferred to the former Trust upon its establishment in 1995. In addition, MLGW made contributions to the former Trust during 1995 through 1997. Subsequent to the establishment of the OPEB Trust in 2007, MLGW has made annual contributions. MLGW contributed \$48,971,640 and \$45,183,806 for the years ended December 31, 2018 and 2017, respectively.

In accordance with the OPEB Trust agreement, the OPEB Trust is permitted to pay or reimburse MLGW for benefits paid under the Plan. The OPEB Trust premium expenses totaled \$28,401,446 and \$29,195,994 for 2018 and 2017, respectively. On the Statement of Changes in Fiduciary Net Position, these premium expenses equal total deductions of \$28,676,304 and \$29,457,896 in 2018 and 2017, respectively less professional services related administrative expenses (e.g., investment advisory fees, actuarial consulting fees, etc.) of \$274,858 and \$261,112 in 2018 and 2017, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the actuarially determined contribution (“ADC”), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The ADC is determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.



## 2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Contributions (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include 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 calculations.

### Net OPEB Liability of MLGW

The components of the Net OPEB Liability of MLGW at December 31, 2018 were as follows:

Total OPEB Liability	\$ 707,219,311
Plan Fiduciary Net Position	<u>425,748,492</u>
Net OPEB Liability	<u>\$ 281,470,819</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	<u>60.20%</u>

Significant assumptions were as follows:

#### Actuarial Assumptions:

Investment Rate of Return	7.50%
Inflation Rate	2.75%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Medical Cost Trend Rate	7.00% grading to 4.50% over 10 years
Drug Cost Trend Rate	9.00% grading to 4.50% over 10 years

### Discount Rate and Investment Rates of Return

The projection of cash flow used to determine the discount rate assumed that MLGW contributions would be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of December 31, 2018.

## 2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Discount Rate and Investment Rates of Return (continued)

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 rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns 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 and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	39.00%	6.41%
International Equity	12.00%	7.69%
Fixed Income	29.00%	2.38%
Alternatives	8.00%	3.83%
Real Estate	10.00%	4.76%
Short Term Investments	2.00%	1.16%
Total	100.00%	

### Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate and Cost Trend

The following presents the NOL of the Division as of December 31, 2018 as well as what the Division's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate. Also, shown is the NOL as if it were calculated using healthcare cost trend rates that were 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates.

	<b>1% Increase in Discount Rate (8.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Decrease in Discount Rate (6.50%)</b>
Net OPEB liability (asset) as of December 31, 2018 (\$ in thousands)	\$ 201,582	\$ 281,471	\$ 379,236
	<b>1% Increase in Trend Rate</b>	<b>Current Trend Rate</b>	<b>1% Decrease in Trend Rate</b>
Net OPEB liability (asset) as of December 31, 2018 (\$ in thousands)	\$ 385,998	\$ 281,471	\$ 197,340

### 3. DEPOSITS AND INVESTMENTS

The OPEB Trust adopted a new Investment Policy Statement in August 2015, to establish and set forth a clear understanding on the part of the OPEB Trust's Investment Committee in its role as the Investment Committee for the assets of the OPEB Trust ("Fund") and as to the investment policy and objectives for the assets of the Fund. The intent of this Investment Policy Statement is to design an investment environment with specific parameters that reflects the philosophy of the Trustees and which allows the Investment Managers to obtain desired performance goals of the Fund. The overall investment objective is to provide for the funding needs of the OPEB Trust.

The Trustees are charged with the responsibility to manage assets of the Fund. The Trustees exercise authority and control over the OPEB Trust's portfolio by setting policies which MLGW's investment staff executes either internally or through the use of external prudent experts. The Trustees oversee and guide the Fund with the advice of the OPEB Investment Committee subject to the following basic fiduciary responsibilities:

- Act solely in the interest of the Fund and for the exclusive purpose of meeting the financial needs of the Fund.
- Act with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and similar goals.
- Determine the asset allocation that offers the highest probability of achieving the investment goals and objectives. Moreover, update and revise the asset mix as the financial needs of the Fund and/or the outlook for the capital markets change. Also, place certain maximum exposures on some of the assets being employed by the Fund. The maximum exposures are disclosed in the following section of this note. The Trustees have delegated to the OPEB Investment Committee the responsibility of determining the asset allocation. In addition, the OPEB Investment Committee determines the target asset allocation of the Fund, as set periodically, to give balance to the overall structure of the Fund's investment program over a long time horizon.
- Engage the services of registered investment managers, co-fiduciaries of the Fund, who possess the necessary specialized research facilities and skilled professionals to meet the investment objectives and guidelines of the Fund. They are expected to invest the assets entrusted to them according to the goals and objectives of the Fund and within the constraints placed on them by the MLGW Board.

In accordance with the OPEB Trust's investment policy, the OPEB Trust may invest in the following major asset classes: domestic, international and enhanced equities; domestic, international and enhanced fixed income with specified ratings; real estate; futures contracts; special strategies; life settlement funds; and short-term investments.

### 3. DEPOSIT AND INVESTMENTS (CONTINUED)

As of December 31, 2018, the OPEB Trust's cash and cash equivalents and investments consisted of the following:

Investment Type	Fair Value	Actual Exposure	Maximum Exposure	Minimum Exposure
<b>Domestic Equity Funds:</b>				
Common stock - domestic	\$ 92,838,604	21.64%		
Equities ETF - domestic	24,672,315	5.75%		
Equity mutual index fund - domestic	36,747,047	8.57%		
Securities on Loan:				
Equities ETF - domestic	96,726	0.02%		
Common stock - domestic	6,199,494	1.45%		
Subtotal Domestic Equity Funds:	160,554,186	37.43%	65%	20%
<b>International Equity Funds:</b>				
Equity mutual funds - international	55,751,346	13.00%		
Subtotal International Equity Funds:	55,751,346	13.00%	25%	0%
<b>Domestic Fixed Income Funds:</b>				
Corporate Bond mutual fund - domestic	26,717,417	6.23%		
Convertible Bond mutual fund - domestic	8,528,803	1.99%		
Subtotal Domestic Fixed Income Funds:	35,246,220	8.22%	50%	5%
<b>International Fixed Income Funds:</b>				
Global Bond fund - international	23,145,953	5.40%		
Subtotal International Fixed Income Funds:	23,145,953	5.40%	25%	0%
<b>Special Strategies Funds:</b>				
Domestic:				
Private equity fund - domestic	37,252,324	8.68%		
Private debt fund - domestic	2,588,850	0.60%		
Distressed debt fund - domestic	12,675,815	2.95%		
Life Settlement Funds	11,864,413	2.77%		
Subtotal Domestic Special Strategies Funds:	64,381,402	15.01%		
International:				
Private equity fund - international	5,863,997	1.37%		
Distressed debt fund - international	21,682,302	5.05%		
Subtotal International Special Strategies Funds:	27,546,299	6.42%		
Subtotal Special Strategies Funds:	91,927,701	21.43%	25%	0%
<b>Real Estate Funds</b>	39,055,153	9.10%	20%	0%
<b>Cash and Cash Equivalents</b>	23,315,970	5.44%	40%	0%
<b>Total Cash and Cash Equivalents and Investments</b>	<b>\$ 428,996,529</b>	<b>102.77%</b>		



### 3. DEPOSIT AND INVESTMENTS (CONTINUED)

The OPEB Trust's investments (including investments bought, sold, as well as held during the year) appreciated/depreciated in fair value, as follows during the years ended December 31:

	Net Appreciation (Depreciation) in Fair Value	
	2018	2017
Investments, at Fair Value:		
<b>Equity Funds:</b>		
Common stock - domestic	\$ (8,672,359)	\$ 15,835,255
Common stock - international	-	(20,172)
Equities ETF	(3,065,262)	5,574,921
Equity mutual funds - international	(8,651,617)	13,580,924
Equity mutual index fund - domestic	(2,470,308)	6,186,585
Subtotal Equity Funds:	(22,859,546)	41,157,513
<b>Fixed Income Funds:</b>		
Corporate Bond mutual funds - domestic	(1,859,181)	571,772
Corporate Bond mutual fund - international	(545,340)	(199,496)
Other Fixed Income fund - domestic	30,655	3,379
Convertible Bond mutual fund - domestic	(601,415)	1,141,995
Global Bond fund - international	(969,035)	2,218,539
Subtotal Fixed Income Funds:	(3,944,316)	3,736,189
<b>Special Strategies Funds:</b>		
Private equity funds - domestic*	64,070	(264,059)
Private equity fund - international	180,588	978,229
Private debt fund - domestic	(162,695)	312,411
Distressed debt funds - domestic	(706,019)	(182,460)
Distressed debt fund - international	1,329,228	2,882,882
Life Settlement Funds	758,287	459,423
Subtotal Special Strategies Funds:	1,463,459	4,186,426
<b>Real Estate Funds</b>	3,325,935	1,572,429
<b>Total Net Appreciation/Depreciation in fair value</b>	<b>\$ (22,014,468)</b>	<b>\$ 50,652,557</b>

\*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.8 million and \$9.7 million at 2018 and 2017, respectively, the initial capital contribution less distributions. As of this report date, the fair market value statements from the general partner have not been provided for the years ended December 31, 2018 and 2017.

### 3. DEPOSITS AND INVESTMENTS (CONTINUED)

#### Credit Risk

*Credit risk* is the risk that an issuer of a debt security will not fulfill its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. Investments in obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The following table presents the OPEB Trust's investment exposure to credit risk as of December 31, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&amp;P Rating</u>	<u>Moody's Rating</u>
Corporate Bond mutual fund - domestic	\$ 26,717,417	NR	NR
Convertible Bond mutual fund - domestic	8,528,803	NR	NR
Global Bond fund - international	23,145,953	NR	NR
<b>Total credit risk debt securities</b>	<u>58,392,173</u>		
Money Market Mutual Funds and Short Term Securities	<u>23,315,970</u> <sup>1</sup>		
<b>Total Fixed Income Securities</b>	<u><u>\$ 81,708,143</u></u>		

Non-Rating Descriptions	
NR	Not Rated

<sup>1</sup> Government/Agency Money Market Fund primarily consists of securities issued or guaranteed as to principal and interest by the U.S. Government or by its agencies, instrumentalities or sponsored enterprises. These securities are not subject to credit risk.

### **3. DEPOSITS AND INVESTMENTS (CONTINUED)**

#### **Custodial Credit Risk**

*Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty to a transaction, the Fund will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty, or the counterparty's trust department or agent but not in the name of the Fund. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. In addition, underlying securities are not subject to custodial credit risk disclosure requirements if the collateral for those loans is reported in the statement of net position.

By an agreement dated December 20, 2007, between the Board and The Northern Trust Company ("Northern"), the MLGW OPEB Trust Master Custody Agreement ("Agreement") was established. The Agreement requires Northern to hold securities or other property for the OPEB Trust through an agent or in the name of its nominee or in a corporate depository of federal book entry account system or other form as it deems best. The OPEB Trust does not have a formal policy for custodial credit risk. None of the Fund's investments at December 31, 2018 were exposed to custodial credit risk.

#### **Concentration of Credit Risk**

*Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represents five percent or more of total investments must be disclosed by amount and issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

In accordance with the investment policy, no more than 5% of the OPEB Trust's portfolio will be invested in the securities of any single issuer with the following exceptions: short-term investments will not exceed 10%. Of the investments subject to concentration of credit risk, there were no investments in any one issuer that represented 5% or more of the Fund's investments at December 31, 2018.

### 3. DEPOSITS AND INVESTMENTS (CONTINUED)

#### Interest Rate Risk

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. The OPEB Trust Investment Policy Statement does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For interest rate risk disclosure the weighted average maturity method was used.

At December 31, 2018, the OPEB Trust had the following investments exposed to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Corporate Bond mutual fund - domestic	26,717,417	7.35
Convertible Bond mutual fund - domestic	8,528,803	Not available
Global Bond fund - international	<u>23,145,953</u>	8.13
Subtotal:	58,392,173	
Other Investments <sup>1</sup> :		
Equity Securities:		
Domestic	160,554,186	
International	<u>55,751,346</u>	
Subtotal:	216,305,532	
Special Strategies:		
Domestic	52,516,989	
International	27,546,299	
Life Settlement Funds	<u>11,864,413</u>	
Subtotal:	91,927,701	
Real Estate Funds	39,055,153	
Subtotal Other Investments:	<u>347,288,386</u>	
<b>Total Investments</b>	<b><u>\$ 405,680,559</u></b>	

<sup>1</sup> Other Investments are not subject to interest rate risk.



### 3. DEPOSITS AND INVESTMENTS (CONTINUED)

#### Securities Lending Transactions

The OPEB Trust has authorized The Northern Trust Company (“Agent”) to enter into, on behalf of the OPEB Trust, securities lending transactions—loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral, consisting of cash or securities, levels must be at least 102% of the market value of borrowed securities, or at least 105% if the borrowed securities and collateral are denominated in different currencies. The maturities of the investments made with cash collateral do not necessarily match the maturities of the securities on loan. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the Agent for all loans to the borrower will at least equal the market value of the securities loaned. The OPEB Trust does not have the ability to pledge or sell collateral securities without a borrower default.

Collateral held in trust for securities on loan included in the 2018 and 2017 Statements of Fiduciary Net Position consists of cash collateral. At December 31, 2018 and 2017, the OPEB Trust has no credit risk exposure to borrowers because the amounts the OPEB Trust owes to the borrowers exceed the amounts the borrowers owe the OPEB Trust. Under the terms of the lending agreement, the OPEB Trust is indemnified against any losses, damages, costs and expenses should the Agent be unable to recover borrowed securities and distributions due borrower filing for bankruptcy or similar relief or failure of the Agent to properly evaluate the creditworthiness of the borrower. In addition, the OPEB Trust is indemnified against loss should the Agent fail to demand adequate and appropriate collateral on a timely basis. Investments held by broker-dealers under securities loans consist of the following:

As of December 31, 2018						
Security Type	Market Value of Loaned Securities Collateralized			Collateral Received from Borrowers		
	Cash Collateral	Non-Cash Collateral	Total	Cash Collateral	Non-Cash Collateral <sup>1</sup>	Total
GLOBAL Equities	\$ -	\$ 156,584	\$ 156,584	\$ -	\$ 166,234	\$ 166,234
US Equities	654,246	5,454,745	6,108,991	667,853	5,589,515	6,257,368
US Government Fixed	-	4,995,240	4,995,240	-	5,086,620	5,086,620
<b>Total</b>	<b>\$ 654,246</b>	<b>\$ 10,606,569</b>	<b>\$ 11,260,815</b>	<b>\$ 667,853</b>	<b>\$ 10,842,369</b>	<b>\$ 11,510,222</b>

As of December 31, 2017						
Security Type	Market Value of Loaned Securities Collateralized			Collateral Received from Borrowers		
	Cash Collateral	Non-Cash Collateral	Total	Cash Collateral	Non-Cash Collateral <sup>1</sup>	Total
GLOBAL Equities	\$ -	\$ 130,297	\$ 130,297	\$ -	\$ 138,266	\$ 138,266
US Equities	3,169,021	7,774,859	10,943,880	3,250,532	7,984,642	11,235,174
US Government Fixed	-	-	-	-	-	-
<b>Total</b>	<b>\$ 3,169,021</b>	<b>\$ 7,905,156</b>	<b>\$ 11,074,177</b>	<b>\$ 3,250,532</b>	<b>\$ 8,122,908</b>	<b>\$ 11,373,440</b>

<sup>1</sup>Collateral values are estimates based on program wide collateralization levels

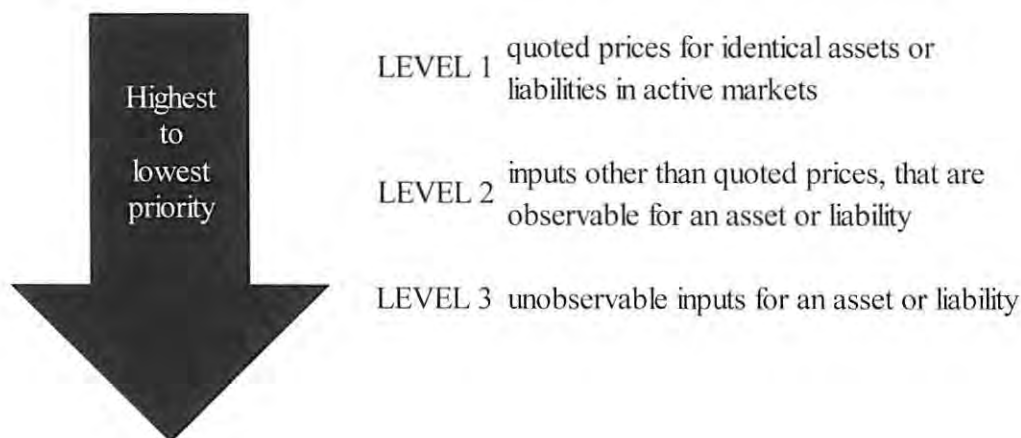
#### 4. FAIR VALUE MEASUREMENTS

The definition of fair value is 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. GASB 72 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy that prioritizes and ranks the inputs to valuation techniques used to measure fair value based on observability. The accounting standards break down the fair value hierarchy into three levels, based on how observable the inputs are that make up the valuation. The most observable inputs are classified as Level 1, inputs other than quoted prices included within level 1 that are observable for an asset or liability, either directly or indirectly are classified as Level 2, and the unobservable inputs are classified as Level 3.

**Level 1:** Fair value is determined using unadjusted quoted prices for identical assets or liabilities in active markets that are accessible on the measurement date. Examples of Level 1 inputs include the following: (i) common and preferred stock, (ii) mutual fund, (iii) short-term securities.

**Level 2:** Fair value is determined using quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive market; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs. Examples of Level 2 inputs include the following: bond or fixed income fund valued by a pricing service that uses matrix pricing.

**Level 3:** Fair value is determined using unobservable inputs for an asset or liability. As a general rule, Level 3 inputs are those that are difficult to obtain on a regular basis and require verification from an outside party to validate the valuation.



#### 4. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table displays information regarding investments measured using the fair value hierarchy:

Investments Measured at Fair Value (Dollars in Thousands)				
	December 31 2018	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
<b>Investments by fair value level</b>				
Debt other	\$ 58,392	\$ 35,246	\$ 23,146	\$ -
Total Debt Securities	58,392	35,246	23,146	-
<b>Equity Securities</b>				
Consumer Discretionary	\$ 6,023	6,023	-	-
Consumer Staples	11,677	11,677	-	-
Energy	5,552	5,552	-	-
Equity Other	6,610	6,610	-	-
Financials	117,268	117,268	-	-
Health Care	15,870	15,870	-	-
Industrials	17,339	17,339	-	-
Information Technology	11,464	11,464	-	-
Materials	14,872	14,872	-	-
Real Estate	5,229	5,229	-	-
Telecommunication Services	2,262	2,262	-	-
Utilities	2,141	2,141	-	-
Total Equity Securities	216,307	216,307	-	-
<b>Total investments by fair value level</b>	<b>\$ 274,699</b>	<b>\$ 251,553</b>	<b>\$ 23,146</b>	<b>-</b>
<b>Investments measured at the net asset value (NAV) *</b>				
Distressed Debt	\$ 34,358			
Hedge Fund - Life Settlement Contracts	11,864			
Private Debt	2,589			
Private Equity**	43,116			
Real Estate	39,055			
<b>Total investments Measured at Net Asset Value</b>	<b>\$ 130,982</b>			
<b>Total Investments Measured at Fair Value</b>	<b>\$ 405,681</b>			

\*In accordance with GASB 72, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net position.

\*\*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.8 million and \$9.7 million at 2018 and 2017, respectively, the initial capital contribution less distributions. As of this report date, the fair market value statements from the general partner have not been provided for the years ended December 31, 2018 and 2017.



#### 4. FAIR VALUE MEASUREMENTS (CONTINUED)

OPEB Trust measures certain investments that do not have a readily determinable fair value using NAV as a practical expedient. These investments are generally structured as limited partnerships, hedge funds, private equity funds, private debt, and real estate funds. The investments measured at NAV as a practical expedient are excluded from the fair value hierarchy because the valuation is not based on actual market inputs, but rather is quantified using the fund's reported NAV.

The following table displays information regarding investments that use NAV per share (or equivalent) as their fair value measurement:

Investments Measured at Net Asset Value (NAV) (Dollars in Thousands)				
	Fair Value December 31, 2018	Unfunded Commitments	Redemption Notice Period	Redemption Frequency (If Currently Eligible)
Distressed Debt <sup>1</sup>	34,358	32,169	NA	NA
Hedge Fund - life settlement contracts <sup>2</sup>	11,864	-	90-120 days	Quarterly
Private Debt <sup>3</sup>	2,589	5,891	NA	NA
Private Equity <sup>4</sup>	43,116	1,538	NA	NA
Real Estate <sup>5</sup>	39,055	8,004	30-120 days	Quarterly/Annually
<b>Total investments measured at NAV</b>	<b>\$ 130,982</b>	<b>\$ 47,602</b>		

<sup>1</sup> This category includes seven distressed debt funds that invest in senior secured debt and stressed assets that are restructuring or believed to be misunderstood in the market place. OPEB Trust investment in each fund is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

<sup>2</sup> This category includes three hedge funds - life settlement contracts that invest in longevity contingent assets, including life settlements and a portfolio of individual, non-variable, life insurance policies. OPEB Trust investments in this category are generally subject to a 1 year lockup period before redemption is permissible. The investments in this category representing 25.0% can be redeemed quarterly with 120 days notice; 46.9% can be redeemed quarterly with 90 days notice. The remaining 28.1% are not subject to redemption.

<sup>3</sup> This category includes one private debt fund that invest in miscellaneous. OPEB Trust investment in each fund is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

<sup>4</sup> This category includes six private equity funds that invest in health care and technology, utilities, transportation, and energy assets, high quality cash flowing companies and secondary investments across various sectors. OPEB Trust investment in this category representing 20.3% monthly after the third month; 8.6% can be redeemed with 60 day notice. The remaining 71.1% is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

<sup>5</sup> This category includes five real estate funds that invest in office, retail, industrial, and multi-family properties. OPEB Trust investment in this category representing 8.6% with no redemption queue; 17.4% can be redeemed quarterly with 90 days notice; 25.3% can be redeemed with annually 120 days notice. The remaining 48.8% are not subject to redemption.

#### 5. INCOME TAX STATUS

The OPEB Trust is a non-taxable trust formed under Section 115 of the Internal Revenue Code as an essential government function trust. MLGW intends to obtain a private letter ruling confirming the Section 115 Trust. Management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**Memphis Light, Gas and Water Division**  
**Other Post Employment Benefits Trust**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability**

**December 31, 2018**  
*(Dollars in thousands)*

	2018	2017
<b>Total OPEB Liability</b>		
Service cost	\$ 15,381	\$ 19,520
Interest	50,560	64,667
Change of benefit terms	-	(61,896)
Differences between expected and actual experience	(3,134)	3,674
Changes in assumptions	-	(200,370)
Benefit payments, including refunds of employee contributions	(28,677)	(29,457)
<b>Net change in Total OPEB Liability</b>	<b>34,130</b>	<b>(203,862)</b>
Total OPEB Liability – beginning	673,089	876,951
<b>Total OPEB Liability – ending (a)</b>	<b>\$ 707,219</b>	<b>\$ 673,089</b>
<b>Plan Fiduciary Net Position</b>		
Contributions – employer	\$ 48,972	\$ 45,184
Contributions – employee	-	-
Net investment income	(14,273)	57,671
Benefit payments including refunds of employee contributions	(28,677)	(29,457)
Administrative expense	-	-
Other	-	-
<b>Net change in Plan Fiduciary Net Position</b>	<b>\$ 6,022</b>	<b>\$ 73,398</b>
<b>Other Adjustments</b>	<b>-</b>	<b>-</b>
Plan Fiduciary Net Position – beginning	419,726	346,328
<b>Plan Fiduciary Net Position – ending (b)</b>	<b>\$ 425,748</b>	<b>\$ 419,726</b>
<b>Net OPEB Liability – ending (a) – (b)</b>	<b>\$ 281,471</b>	<b>\$ 253,363</b>
<b>Plan Fiduciary Net Position as a percentage of the Total OPEB Liability</b>	<b>60.20%</b>	<b>62.36%</b>
<b>Covered employee payroll</b>	<b>\$ 169,605</b>	<b>\$ 167,221</b>
<b>Plan Net OPEB Liability as a percentage of covered employee payroll</b>	<b>165.96%</b>	<b>151.51%</b>

**Notes to Schedule:**

*Change of assumptions:* Medical and Prescription Drug trends were updated in 2017. Expected claims were also updated in 2017.

*Historical data:* This schedule will be expanded to reflect ten years of data, as the information becomes available.

Memphis Light, Gas and Water Division

Other Post Employment Benefits Trust

Required Supplementary Information

Schedule of Employer Contributions

December 31, 2018

*(Dollars in thousands)*

<u>Fiscal Year Ended December 31</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Actual Contribution in Relation to ADC</u>	<u>Contribution Deficiency (Excess)</u>
2018	\$ 48,270	\$ 48,972	\$ (702)
2017	46,978	45,184	1,794
2016	45,289	42,496	2,793
2015	38,187	38,438	(251)
2014	38,386	42,100	(3,713)
2013	42,854	43,043	(189)
2012	42,427	39,747	2,680
2011	44,666	43,554	1,112
2010	43,693	43,476	217
2009	55,341	55,688	(347)

**Memphis Light, Gas and Water Division**

**Other Post Employment Benefits Trust**

**Required Supplementary Information**

**Schedule of Investment Return**

**December 31, 2018**

<b>Fiscal Year Ended December 31</b>	<b>Actuarial Value Investment Return</b>		<b>Market Value Investment Return</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
2018	\$ 21,144,708	5.08	\$ (14,072,778)	-3.27
2017	27,899,278	7.52	57,671,196	16.28
2016	14,123,059	4.14	26,412,553	8.47
2015	15,526,835	4.99	(7,239,204)	-2.37
2014	19,365,937	6.95	13,205,614	4.74
2013	32,724,319	14.23	32,724,319	14.23
2012	22,593,929	11.92	22,593,929	11.92
2011	2,246,675	1.32	2,246,675	1.32
2010	15,603,337	11.52	15,603,337	11.52
2009	24,250,018	25.90	24,250,018	25.90
<b>Total</b>	<b>\$ 195,478,095</b>		<b>\$ 173,395,659</b>	
	Five-year average return	5.71%		4.52%
	Ten-year average return	7.71%		6.94%

AVA return for 2014 reflects an asset method change which increased the return by 6,160,323, or 2.21%. Prior to 2014, the actuarial value of assets was equal to the market value of assets.

**Memphis Light, Gas and Water Division**

**Other Post Employment Benefit Trust**

**Required Supplementary Information**

**Notes to the Required Schedules**

**December 31, 2018**

<b>Valuation Date</b>	December 31, 2017
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Amortization Method</b>	Level percent of pay, closed, 30 years
<b>Remaining Amortization Period</b>	27 years as of December 31, 2018
<b>Asset Valuation Method</b>	Market value of assets less unrecognized returns in each of the last four years (applied prospectively beginning with 2014). Unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	7.50%
Inflation Rate	2.75%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Medical Cost Trend Rate	7.00% grading to 4.50% over 10 years
Drug Cost Trend Rate	9.00% grading to 4.50% over 10 years

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners and Management  
Memphis Light, Gas and Water Division  
Memphis, Tennessee

We have audited, 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, the statements of plan net position and the related statements of changes in plan net position of the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (the OPEB Trust), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the OPEB Trust's basic financial statements, and have issued our report thereon dated May 31, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the OPEB Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the OPEB Trust's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control reporting that might be significant deficiencies, or material weakness. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weakness may exist that have not been identified.





### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the OPEB Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Banks, Finley White & Co.*

Memphis, Tennessee  
May 31, 2019

**MEMPHIS LIGHT, GAS AND WATER DIVISION  
OTHER POST EMPLOYMENT BENEFITS TRUST**

Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended December 31, 2018

There were no prior findings reported.