September 16, 2015

Ms. Barbara Johnson
Chief Business Official
Kentfield School District
750 College Avenue
Kentfield, CA 94904

Re: Kentfield School District ("District") GASB 45 Valuation

Dear Ms. Johnson:

This report sets forth the results of our GASB 45 actuarial valuation of the District's retiree health insurance program as of July 1, 2015.

In June, 2004 the Governmental Accounting Standards Board (GASB) issued accrual accounting standards for retiree healthcare benefits, GASB 43 and GASB 45. GASB 43/45 require public employers such as the District to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statements of both the employer and the trust, if any, set aside to pre-fund these liabilities. The District must obtain actuarial valuations of its retiree health insurance program under GASB 45 not less frequently than once every three years.

To accomplish these objectives the District selected Demsey, Filliger and Associates (DF&A) to perform an actuarial valuation of the retiree health insurance program as of July 1, 2015. This report may be compared with the valuation performed by DF&A as of July 1, 2012, to see how the liabilities have changed since the last valuation. We are available to answer any questions the District may have concerning the report.

Financial Results

We have determined that the amount of actuarial liability for District-paid retiree benefits is $2,507,736 as of July 1, 2015. This represents the present value of all benefits expected to be paid by the District for its current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 4.0% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits.

This includes benefits for 6 retirees as well as 118 active employees who may become eligible to retire and receive benefits in the future. The valuation excludes employees hired after the valuation date.

When we apportion the $2,507,736 into past service and future service components under the Projected Unit Credit Cost Method, the past service liability (or "Accrued Liability") component is $1,340,399 as of July 1, 2015. This represents the present value of all benefits earned to date assuming that an employee earns retiree healthcare benefits ratably over his or her career. The $1,340,399 is comprised of liabilities of $1,104,407 for active employees and $235,992 for retirees. Because the District has not established an irrevocable trust for the pre-funding of retiree healthcare benefits, the Unfunded Accrued Liability (called the UAL, equal to the AL less Assets) is also $1,340,399.

We have determined that Kentfield School District's "Annual Required Contributions", or "ARC", for the fiscal year 2015-16, is $199,312. The $199,312 is comprised of the present value of benefits accruing in the current year, called the "Service Cost", and a 30-year amortization of the UAL. We estimate that the District will pay approximately $65,353 for the 2015-16 fiscal year in healthcare costs for its retirees, so the difference between the accrual accounting expense (ARC) and pay-as-you-go is an increase of $133,959.

There are two adjustments to the ARC that are required in order to determine the District's Annual OPEB Cost (AOC) for the 2015-16 fiscal year. We have calculated these adjustments based on an estimated Net OPEB Obligation of $538,031 as of June 30, 2015, resulting in an AOC for 2015-16 of $189,719.

We show these numbers in the table on the next page and in Exhibit II. All amounts are net of expected future retiree contributions, if any.

Kentfield School District

Annual Liabilities and Expense under

GASB 45 Accrual Accounting Standard

Projected Unit Credit Cost Method

Item	**Amounts for Fiscal 2015-16**
Present Value of Future Benefits (PVFB)	
Active	$2,271,744
Retired	235,992
Total: PVFB	**$2,507,736**
Accrued Liability (AL)	
Actives	$1,104,407
Retired	235,992
Total: AL	**$1,340,399**
Assets	(0)
Total: Unfunded AL	**$1,340,399**
Annual Required Contributions (ARC)	
Service Cost At Year-End	$121,797
30-year Amortization of Unfunded AL	77,515
Total: ARC	**$199,312**
Adjustments to ARC	
Interest on Net OPEB Obligation*	21,521
Adjustment to ARC*	(31,114)
Total: Annual OPEB Cost (AOC) for 2015-16	**$189,719**

*Amounts based on estimated June 30, 2015 Net OPEB Obligation of $538,031.

The ARC of $199,312, shown above, should be used for the 2015-16, 2016-17 and 2017-18 fiscal years, but the Annual OPEB Cost for all three years must include an adjustment based on the Net OPEB Obligation as reported in the preceding year's financial statement, which is not known precisely in advance.

When the District begins preparation of the June 30, 2015 government-wide financial statements, DF&A will provide the District and its auditors with complimentary assistance in preparation of footnotes and required supplemental information for compliance with GASB 45 (and GASB 43, if applicable.

Differences from Prior Valuation

The most recent prior valuation was completed as of July 1, 2012 by DF&A. The AL (Accrued Liability) as of that date was $658,863, compared to $1,340,399 as of July 1, 2015. In this section, we provide a reconciliation between the two numbers so that it is possible to trace the AL from one actuarial report to the next.

Several factors have caused the AL to change since 2012. The AL increases as employees accrue more service and get closer to receiving benefits, and decreases as benefit obligations to retirees are satisfied. There are actuarial gains/losses from one valuation to the next, and changes in actuarial assumptions and methodology for the current valuation. To summarize, the most important changes were as follows:

1. There was a loss (an increase in the AL) of $153,421 due to increases in healthcare premiums and District caps greater than expected. This includes an increased implicit subsidy arising from the use of the same rates for active employees and retirees under the age of 65.
2. We increased the initial healthcare trend rate from 5% to 8% to reflect our expectation of premium increase over the next several years. This increased the AL by $60,942.
3. We changed to more up-to-date mortality tables. This increased the AL by $3,052.
4. There was a net census loss (an increase in the AL) of $276,301, primarily from lower turnover than expected and more retirees electing health insurance than expected.

The estimated changes to the AL from July 1, 2012 to July 1, 2015 may be summarized as follows:

Changes to AL	**AL**
AL as of 7/1/12	**$658,863**
Passage of time	187,820
Premium and cap increases > expected	153,421
Change in trend rates	60,942
Change in mortality tables	3,052
Net census loss	276,301
AL as of 7/1/15	**$1,340,399**

Funding Schedules

There are many ways to approach the pre-funding of retiree healthcare benefits. In the *Financial Results* section, we determined the annual expense for all District-paid benefits. The expense is an orderly methodology, developed by the GASB, to account for retiree healthcare benefits. This amount will fluctuate from year to year based on the asset performance and as the population matures. However, the GASB 45 expense has no direct relation to amounts the District may set aside to pre-fund healthcare benefits.

The table on the next page provides the District with three alternative schedules for <u>funding</u> (as contrasted with <u>expensing</u>) retiree healthcare benefits. The schedules all assume that the retiree fund earns, or is otherwise credited with, 4.0% per annum on its investments, and that contributions and benefits are paid mid-year.

The schedules are:

1. A level contribution amount for the next 20 years.
2. A level percent of the Unfunded Accrued Liability.
3. A constant percentage (3%) increase for the next 20 years.

We provide these funding schedules to give the District a sense of the various alternatives available to it to pre-fund its retiree healthcare obligation. The three funding schedules are simply three different examples of how the District may choose to spread its costs.

By comparing the schedules, you can see the effect that early pre-funding has on the total amount the District will eventually have to pay. Because of investment earnings on fund assets, the earlier contributions are made, the less the District will have to pay in the long run. Of course, the advantages of pre-funding will have to be weighed against other uses of the money.

The table on the following page shows the required annual outlay under the pay-as-you-go method and each of the above schedules. **The three funding schedules include the "pay-as-you-go" costs; therefore, the amount of pre-funding is the <u>excess</u> over the "pay-as-you-go" amount.**

These numbers are computed on a closed group basis, assuming no new entrants, and using unadjusted premiums. We use unadjusted premiums for these funding schedules because we do not recommend that the District pre-fund for the full age-adjusted costs reflected in the GASB 45 liabilities shown in the first section of this report. If the District's premium structure changes in the future to explicitly charge under-age 65 retirees for the full actuarial cost of their benefits, this change will be offset by a lowering of the active employee rates (all else remaining equal), resulting in a direct reduction in District operating expenses on behalf of active employees from that point forward. For this reason among others, we believe that pre-funding of the full GASB liability would be redundant.

Kentfield School District

Sample Funding Schedules (Closed Group)

Fiscal Year Beginning	Pay-as-you-go	Level Contribution for 20 years	Level % of Unfunded Liability*	Constant Percentage Increase
2015	$65,353	$124,785	$230,534	$96,513
2016	70,261	124,785	191,997	99,408
2017	89,946	124,785	162,192	102,391
2018	96,584	124,785	140,886	105,462
2019	91,577	124,785	124,685	108,626
2020	97,900	124,785	111,175	111,885
2021	106,755	124,785	101,024	115,242
2022	99,031	124,785	93,738	118,699
2023	105,150	124,785	86,926	122,260
2024	97,922	124,785	81,939	125,928
2025	88,222	124,785	77,011	129,705
2026	93,963	124,785	71,926	133,597
2027	99,543	124,785	68,255	137,604
2028	103,190	124,785	65,642	141,733
2029	116,957	124,785	63,647	145,985
2030	115,481	124,785	63,027	150,364
2031	121,074	124,785	62,053	154,875
2032	136,639	124,785	61,416	159,521
2033	131,276	124,785	61,850	164,307
2034	126,970	124,785	61,297	169,236
2035	106,745	0	60,079	0
2036	95,381	0	57,099	0
2037	89,024	0	53,529	0
2038	73,625	0	49,932	0
2039	64,525	0	45,683	0
2040	46,741	0	41,457	0
2041	58,052	0	36,693	0
2042	55,145	0	33,571	0
2043	59,037	0	30,737	0
2044	62,834	0	28,576	0
2045	60,654	0	26,911	0
2046	52,500	0	25,252	0
2047	38,138	0	23,262	0
2048	33,401	0	20,708	0
2049	25,270	0	20,620	0
2050	29,133	0	29,133	0
2055	0	0	0	0

*Reverts to pay-as-you-go in the year 2046.

Note to auditor: when calculating the employer OPEB contribution for the year ending on the statement date, we recommend multiplying the actual District-paid premiums on behalf of retirees by a factor of 1.6423 to adjust for the implicit subsidy.

Actuarial Assumptions

In order to perform the valuation, the actuary must make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates. Our assumptions are based on a standard set of assumptions we have used for similar valuations, modified as appropriate for the District. For example, turnover rates are taken from a standard actuarial table, T-5, without adjustment. This closely matches the District's historic turnover patterns. Retirement rates were also based on recent District retirement patterns. Both assumptions should be reviewed in the next valuation to see if they are tracking well with experience.

The discount rate of 4.0% is based on our best estimate of expected long-term plan experience. It is in accordance with our understanding of the guidelines for selection of this rate under GASB 45 for unfunded plans such as the District's. The healthcare trend rates are based on our analysis of recent District experience and our knowledge of the general healthcare environment.

A complete description of the actuarial assumptions used in the valuation is set forth in the "Actuarial Assumptions" section.

Projected Annual Pay-as-you go Costs

As part of the valuation, we prepared a projection of the expected annual cost to the District to pay benefits on behalf of its retirees on a pay-as-you-go basis. These numbers are computed on a closed group basis, assuming no new entrants, and are net of retiree contributions. Projected pay-as-you-go costs for selected years are as follows:

FYB	Pay-as-you-go
2015	$65,353
2016	70,261
2017	89,946
2018	96,584
2019	91,577
2020	97,900
2021	106,755
2022	99,031
2023	105,150
2024	97,922
2025	88,222
2030	115,481
2035	106,745
2040	46,741
2045	60,654
2050	29,133
2055	0

Breakdown by Employee/Retiree Group

Exhibit I, attached at the end of the report, shows a breakdown of the GASB 45 components (ARC, AL, Service Cost, and PVFB) by bargaining unit (or non-represented group) and separately by active employees (future retirees) and current retirees.

Net OPEB Obligation (NOO) and Annual OPEB Cost (AOC)

Exhibit II shows a development of the District's Net OPEB Obligation (NOO) as of June 30, 2009 through June 30, 2015, and the Annual OPEB Cost (AOC) for the fiscal years ending June 30, 2010 through June 30, 2016. The NOO as of June 30, 2015 and the AOC for 2015-16 are estimates as of the date this report is being published.

Certification

The actuarial certification, including a caveat regarding limitations of scope, if any, is contained in the "Actuarial Certification" section at the end of the report.

We have enjoyed working with the District on this report, and are available to answer any questions you may have concerning any information contained herein.

Sincerely,
DEMSEY, FILLIGER AND ASSOCIATES

T Louis Filliger

T. Louis Filliger, FSA, EA, MAAA
Partner & Actuary

Benefit Plan Provisions

This report analyzes the health and welfare benefit plans of the District including medical, prescription drug, dental and vision benefits. Active employees and retirees are offered a choice of five medical/prescription drug options from Kaiser Permanente and Blue Shield of California, with prescription drug carved out and provided through Navitus for the two Blue Shield options. These coverages are self-insured on a pooled basis by the Self-Insured Schools of California (SISC III), effective October 1, 2015. In addition, all groups are offered dental and vision benefits through Delta Dental and VSP Vision, respectively.

Certificated and Classified employees (including management) who attain age 55 and have completed at least 5 years of continuous service are eligible to retire with District-paid medical, prescription drug, dental and vision coverages, to a maximum of the Kaiser Traditional single rate for active employees (currently $600.00/month), plus retiree-only dental and vision premiums (currently $55.95/month and $17.70/month, respectively) for a total of $673.65/month, pro-rated for part-time service if applicable. Retirees may cover dependents at their own expense. District-paid benefits end at age 65.

This report does not cover cash payments made to retirees, which are properly expensed under either GASB 47 or GASB 68 depending on the exact nature of the payments.

The following table shows monthly rates for retirees, which in all cases are the same as those that apply to active employees in the same tier. The retiree is responsible for paying the excess, if any, of these rates over the District caps described above. The rates shown below went into effect as of October 1, 2015:

Plan	Retiree	Retiree + 1	Retiree + Family
Kaiser Traditional	$600.00	$1,200.00	$1,699.00
Kaiser DHMO $500	569.00	1,138.00	1,610.00
Kaiser HSA	478.00	956.00	1,353.00
Blue Shield 100-A $20, Rx 5-20	936.00	1,979.00	2,754.00
Blue Shield 80-E $20, Rx 7-25	799.00	1,684.00	2,341.00
Delta Dental	55.95	111.91	162.27
VSP Vision	17.70	17.70	17.70

Valuation Data

Active and Retiree Census

Age distribution of retirees included in the valuation

Age	Count
Under 55	0
55-59	0
60-64	6
65+	0
Total	6
Average Age	62.00

Age/Years of service distribution of active employees included in the valuation

Years→	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
Age									
<25	0								0
25-29	6	1							7
30-34	7	3	1						11
35-39	3	3	0	0					6
40-44	5	6	4	2	1				18
45-49	3	5	5	2	4	0			19
50-54	2	6	4	0	2	1	0		15
55-59	3	5	4	3	3	3	1	0	22
60-64	0	3	2	1	3	2	0	0	11
65+*	0	1	1	3	1	1	2	0	9
All Ages	29	33	21	11	14	7	3	0	118

* not eligible for future District-paid retiree health benefits.

Average Age: 48.55
Average Service: 11.36

Actuarial Assumptions

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Valuation Date:	July 1, 2015
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	30-year level dollar, open period
Discount Rate:	4.0% per annum
Return on Assets:	4.0% per annum

Pre-retirement Turnover: According to Crocker-Sarason Table T-5 less mortality, without adjustment. Sample rates are as follows:

Age	Turnover (%)
25	7.7%
30	7.2
35	6.3
40	5.2
45	4.0
50	2.6
55	0.9

Pre-retirement Mortality: RP-2014 Employee Mortality, without projection. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
25	0.48	0.17
30	0.45	0.22
35	0.52	0.29
40	0.63	0.40
45	0.97	0.66
50	1.69	1.10
55	2.79	1.67
60	4.69	2.44

Post-retirement Mortality: RP-2014 Healthy Annuitant Mortality, without projection. Sample deaths per 1,000 retirees are as follows:

Age	Males	Females
55	5.74	3.62
60	7.78	5.19
65	11.01	8.05
70	16.77	12.87
75	26.83	20.94
80	44.72	34.84
85	77.50	60.50
90	135.91	107.13

Actuarial Assumptions (Continued)

Claim Cost per Retiree or Spouse:

Age	Medical/Rx	Dental/Vision
50	$7,501	$884
55	8,696	884
60	10,081	884
64	11,347	884
65	3,827	884

Retirement Rates:

Age	Percent Retiring*
55	10.0%
56	12.0
57	15.0
58	18.0
59	20.0
60	25.0
61	30.0
62	35.0
63	40.0
64	45.0
65	100.0

*Of those having met the eligibility for District-paid benefits. The percentage refers to the probability that an active employee reaching the stated age will retire within the following year.

Trend Rate: Healthcare costs were assumed to increase according to the following schedule:

FYB	Medical/Rx	Dental/Vision
2015	8.0%	4.0%
2016	7.0	4.0
2017	6.0	4.0
2018+	5.0	4.0

Percent Married: Future retirees: 25%, with male spouses assumed 3 years older than female spouses. For current retirees, actual dependent data was used.

Future District Cap: The District caps on retiree healthcare premiums were assumed to increase at the full healthcare trend rates for all future years.

Percent Waiving: 50% of future retirees assumed to waive benefits.

Actuarial Certification

The results set forth in this report are based on our actuarial valuation of the health and welfare benefit plans of the Kentfield School District ("District") as of July 1, 2015.

The valuation was performed in accordance with generally accepted actuarial principles and practices. We relied on census data for active employees and retirees provided to us by the District in August, 2015. We also made use of claims, premium, expense, and enrollment data, and copies of relevant sections of healthcare documents provided to us by the District.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the program under GASB 43 and GASB 45, and the existing and proposed Actuarial Standards of Practice for measuring post-retirement healthcare benefits. We have assumed no post-valuation mortality improvements, consistent with our belief that there will be no further significant, sustained increases in life expectancy in the United States over the projection period covered by the valuation.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the valuation process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this valuation report to the clients' financial statements.

The undersigned actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Certified by:

T. Louis Filliger

T. Louis Filliger, FSA, EA, MAAA Date: 9/16/15
Partner & Actuary

Kentfield School District

Exhibit I

GASB 45 Valuation Results By Employee Classification

	7/1/2015 Valuation Results **Certificated**	7/1/2015 Valuation Results **Classified**	7/1/2015 Valuation Results **Total All Groups**
Present Value of Benefits			
Actives	$ 1,785,999	$ 485,745	$ 2,271,744
Retirees	164,803	71,189	235,992
Total Present Value of Benefits (PVB):	$ 1,950,802	$ 556,934	$ 2,507,736
Accrued Liability:			
Actives	$ 895,940	$ 208,467	$ 1,104,407
Retirees	164,803	71,189	235,992
Total Accrued Liability (AL):	$ 1,060,743	$ 279,656	$ 1,340,399
Assets*	-	-	-
Unfunded Accrued Liability ("UAL")	**$ 1,060,743**	**$ 279,656**	**$ 1,340,399**
GASB 45 ARC ("Annual Required Contributions")			
Service Cost at Year-end	$ 89,596	$ 32,201	$ 121,797
30-year amortization of UAL	61,343	16,172	77,515
Total ARC	**$ 150,939**	**$ 48,373**	**$ 199,312**

*Assets are allocated for illustration purposes only; GASB 45 does not provide authority for this calculation.

		Amount
ARC for 2009-10		157,000
Interest on Net OPEB Obligation		-
Amortization adjustment to ARC		-
Annual OPEB Cost 2009-10		**157,000**
Employer Contribution		(77,125)
Change in Net OPEB Obligation 2009-10		79,875
Net OPEB Obligation 6/30/2009		-
Net OPEB Obligation 6/30/2010		**79,875**
ARC for 2010-11		164,300
Interest on Net OPEB Obligation		-
Amortization adjustment to ARC		-
Annual OPEB Cost 2010-11		**164,300**
Employer Contribution		(73,780)
Change in Net OPEB Obligation 2010-11		90,520
Net OPEB Obligation 6/30/2010		79,875
Net OPEB Obligation 6/30/2011		**170,395**
ARC for 2011-12		220,000
Interest on Net OPEB Obligation		8,500
Amortization adjustment to ARC		(10,600)
Annual OPEB Cost 2011-12		**217,900**
Employer Contribution		(45,557)
Change in Net OPEB Obligation 2011-12		172,343
Net OPEB Obligation 6/30/2011		170,395
Net OPEB Obligation 6/30/2012		**342,738**
ARC for 2012-13		108,536
Interest on Net OPEB Obligation		13,710
Amortization adjustment to ARC		(19,821)
Annual OPEB Cost 2012-13		**102,425**
Employer Contribution		(15,502)
Change in Net OPEB Obligation 2012-13		86,923
Net OPEB Obligation 6/30/2012		342,738
Net OPEB Obligation 6/30/2013		**429,661**
ARC for 2013-14		108,536
Interest on Net OPEB Obligation		17,186
Amortization adjustment to ARC		(24,847)
Annual OPEB Cost 2013-14		**100,875**
Employer Contribution		(47,775)
Change in Net OPEB Obligation 2013-14		53,100
Net OPEB Obligation 6/30/2013		429,661
Net OPEB Obligation 6/30/2014		**482,761**
ARC for 2014-15		108,536
Interest on Net OPEB Obligation		19,310
Amortization adjustment to ARC		(27,918)
Annual OPEB Cost 2014-15		**99,928**
Employer Contribution (estimated)		(44,658)
Change in Net OPEB Obligation 2014-15		55,270
Net OPEB Obligation 6/30/2014		482,761
Net OPEB Obligation 6/30/2015	**estimated**	**538,031**
ARC for 2015-16		199,312
Interest on Net OPEB Obligation		21,521
Amortization adjustment to ARC		(31,114)
Annual OPEB Cost 2015-16	**estimated**	**189,719**