

# **Road Commission for Oakland County**

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**Financial Report  
with Supplemental Information  
September 30, 2014**

# Road Commission for Oakland County

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## Independent Auditor's Report

To the Board of Road Commissioners  
Road Commission for Oakland County

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary fund activity of the Road Commission for Oakland County (the "Road Commission"), a component unit of Oakland County, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Road Commission for Oakland County'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. The retirement system and retiree healthcare trust were not audited under *Government Auditing Standards*.

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.

To the Board of Road Commissioners  
Road Commission for Oakland County

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the fiduciary fund activity of the Road Commission for Oakland County as of September 30, 2014 and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 13 to the basic financial statements, during the year, the Road Commission adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, unavailable revenue is now classified as a deferred inflow of resources rather than a liability on the modified accrual basis of accounting. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB schedules of funding progress, and the Road Fund budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission for Oakland County's basic financial statements. The Subdivision Improvement Fund budgetary comparison schedule, identified in the table of contents as other supplemental information, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Subdivision Improvement Fund budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Subdivision Improvement Fund budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Road Commissioners  
Road Commission for Oakland County

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 on our consideration of the Road Commission for Oakland County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Road Commission for Oakland County's internal control over financial reporting and compliance.

*Plante & Morse, PLLC*

February 25, 2015

# Road Commission for Oakland County

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## Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2014. Please read this in conjunction with the financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net position presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis, and then in total on a full-accrual basis. The modified-accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full-accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenue, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis, and then in total on a full-accrual basis. The modified-accrual fund-based columns tell us how the motoring public's money was spent during the year, while the total full-accrual column tells us the cost of providing services this year, as well as whether the motoring public has paid the full cost of providing services this year.

These two statements are followed by the fiduciary funds (the Retirement System and the Retiree Health Care Trust) statement of fiduciary net position and statement of revenues, expenses, and changes in net position. These statements provide information about the Retirement System and the Retiree Health Care Trust for which the Road Commission acts solely as trustee for the benefit of current and future retirees.

### Financial Analysis of the Road Commission as a Whole

The following tables provide condensed information about the total full-accrual finances of the Road Commission as of September 30, 2014 and 2013 and for the years then ended. As discussed above, the total full-accrual columns report the Road Commission's net position and how it has changed. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position may be one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, the reader also needs to consider additional non-financial factors such as changes in the condition of the Road Commission's roads and changes in the laws related to gas taxes and their distribution.

# Road Commission for Oakland County

## Management's Discussion and Analysis (Continued)

	September 30	
	2014	2013
<b>Assets</b>		
Current and other assets	\$ 91,112,675	\$ 77,213,631
Capital assets	<u>764,607,294</u>	<u>735,087,871</u>
Total assets	855,719,969	812,301,502
<b>Liabilities</b>		
Current liabilities	31,534,960	17,137,560
Long-term liabilities	<u>22,229,717</u>	<u>21,396,982</u>
Total liabilities	<u>53,764,677</u>	<u>38,534,542</u>
<b>Net Position</b>		
Net investment in capital assets	763,607,294	733,587,871
Unrestricted	<u>38,347,998</u>	<u>40,179,089</u>
Total net position	<u><b>\$ 801,955,292</b></u>	<u><b>\$ 773,766,960</b></u>
<b>Year Ended September 30</b>		
	2014	2013
<b>Revenue</b>		
State aid - Act 51	\$ 62,436,451	\$ 60,161,099
Other state sources	22,553,242	13,777,725
Federal sources	28,504,921	28,574,108
Revenue from county and local governments	12,418,262	6,693,834
Other	<u>5,540,896</u>	<u>6,464,933</u>
Total revenue	131,453,772	115,671,699
<b>Expenses</b>		
General administration	5,342,039	4,660,494
Departmental operations and maintenance	38,434,000	31,199,563
Nondepartmental	19,012,797	18,806,270
Interest	52,014	72,014
Depreciation	<u>40,424,590</u>	<u>38,015,615</u>
Total expenses	<u>103,265,440</u>	<u>92,753,956</u>
Change in net position	<u><b>\$ 28,188,332</b></u>	<u><b>\$ 22,917,743</b></u>

# Road Commission for Oakland County

## Management's Discussion and Analysis (Continued)

The Road Commission's net position increased approximately 4 percent, from \$773,766,960 to \$801,955,292 for the year ended September 30, 2014. This increase was primarily because capital grants were provided in the current year for capital expenditures that will be recognized in future years as depreciation expense. The net investment in capital assets increased by \$30,019,423 and \$22,504,514 for the years ended September 30, 2014 and 2013, respectively.

The Road Commission's revenue for the year ended September 30, 2014 increased approximately 13.6 percent from the prior year total. Revenue from county and local governments, primarily representing participation in road construction projects, increased 85.5 percent as expenditures for road improvements and construction also increased significantly from the preceding year. Road construction activity for the current year increased 22.8 percent from that of the preceding year. Total expenses for the fiscal year ended September 30, 2014 were approximately 11.3 percent more than the preceding year's total.

### Financial Analysis of Individual Funds of the Road Commission

The Road Commission currently has two operating funds: the Subdivision Improvement Fund, which accounts for the activity of special assessment districts, and the Road Fund, which accounts for all of the other operating activity of the Road Commission. The reporting of the individual governmental funds focuses on the inflows and outflows of money and the balances left at year end that are available for spending. These funds report using an accounting method called modified-accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The individual fund columns provide a detailed short-term view of the Road Commission's general operations and the basic services it provides. Individual fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

The Road Fund is used to account for the general operations of the Road Commission. It is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the Road Commission, which are earmarked by law for road and highway purposes. For the year ended September 30, 2014, the fund balance of the Road Fund decreased by \$1,644,376. Total revenue was \$127,269,638 and total expenditures were \$128,914,014, which represented an increase in revenue from the prior year of 13.8 percent and an increase in expenditures from the prior year of 17.9 percent. The increase in revenue was due principally to increases in state and local government revenue for construction projects and road maintenance. The size of next year's construction program anticipates the use of MTF funds collected in the current and prior years and is expected to result in a decrease in next year's fund balance.

# Road Commission for Oakland County

## Management's Discussion and Analysis (Continued)

### Budgetary Highlights

Prior to beginning each year, the Road Commission's budget is prepared based upon certain assumptions and facts available at that time. During the year, the Road Commission board amends its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, by policy, the board reviews and authorizes large expenditures throughout the year.

The amended Road Fund revenue budget for the year ended September 30, 2014 was \$23,348,044 higher than the original budget, due primarily to the budget adjustments to reflect more participation from federal and local sources in the Road Improvement Program (RIP). Several times during the year, the RIP budget is amended to more accurately reflect construction activity. These amendments include the related revenue adjustments. The actual revenue recognized during the year ended September 30, 2014 was less than the amended budget by \$2,149,056.

The amended Road Fund expenditure budget for the year ended September 30, 2014 was \$44,356,733 higher than the original budget, due primarily to budget adjustments to reflect increased RIP expenditures as well as increases to each of the departmental budgets. Each year, the original budget is amended for the prior year's capital outlay, contracted services, and RIP expenditures that were committed to in the prior year but where the goods were not received or services were not performed until the subsequent year. The actual expenditures recognized during the year ended September 30, 2014 were less than the amended budget by \$23,468,369 due principally to this type of expenditure timing difference.

### Capital Asset and Debt Administration

#### *Capital Assets*

As of September 30, 2014 and 2013, the Road Commission had invested \$764,607,294 and \$735,087,871, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$29,519,423, or approximately 4.0 percent. The Road Commission added \$69,944,013 to its investment in capital assets during the current year, including \$65,117,247 of infrastructure additions. Depreciation of capital assets is provided for annually over estimated future lives. Infrastructure construction is funded by federal, state, and local contributions, as well as by Road Commission revenue.

# Road Commission for Oakland County

## Management's Discussion and Analysis (Continued)

Capital asset additions for the current and prior year include the following:

	2014	2013
Buildings, storage bins, and related - Including land and construction in progress	\$ 432,380	\$ 1,480,320
Road equipment	4,281,160	1,501,492
Other equipment	113,226	32,741
Infrastructure - Including land	65,117,247	57,005,576
Total additions	<u>\$ 69,944,013</u>	<u>\$ 60,020,129</u>

### *Debt Administration*

At September 30, 2014 and 2013, the Road Commission had \$1,000,000 and \$1,500,000, respectively, in outstanding notes payable.

Other long-term obligations include accrued vacation pay and sick leave, accrued postemployment benefit obligations, and reserves for various losses. More detailed information about the Road Commission's long-term liabilities is presented in Note 6 to the financial statements.

### **Economic Factors and Next Year's Budget**

Michigan is now well into its fifth year of economic recovery since hitting bottom at the beginning of 2010. The year 2014 started with a "blast." This past winter was among the coldest and snowiest on record and stretched the Road Commission's resources as thin as they have ever been. On the positive side, the Michigan economy continues to improve as a result of certain events, including lower fuel prices that have enabled the auto industry to rebound, annual stock market returns that are headed toward over 11 percent, and the Federal Reserve Board ending its quantitative easing program.

Because of these positive events, the U.S. economy has slowly been recovering. Consumer price inflation has remained controlled well below 2 percent in 2014 and is projected to be 1.3 percent in 2015 and 1.7 percent in 2016. The nation's unemployment rate is decreasing slowly, with a 5.4 percent projection for 2015 and 5.0 percent for 2016. However, Michigan's unemployment rate was 7.1 percent in October 2014 and was ranked 44th highest in the nation. National housing price indices are still rising steadily. However, prospective new homeowners are being hit by both higher prices and higher mortgage rates. The auto industry has rebounded, and light vehicle sales are projected to reach 16.6 million units in 2015 and 17.0 million units in 2016.

# Road Commission for Oakland County

## Management's Discussion and Analysis (Continued)

Due to lower gas prices, gasoline usage has actually increased for the first time in many years. As a result, the Road Commission's largest source of operating revenue, the fuel tax, increased .8 percent in 2014. Despite this good news, over the past 10 years, the statewide fuel tax revenue has still declined 10.2 percent. Each year, the Road Commission's revenues fall further and further behind the ever-increasing expenses necessary to maintain and improve the road network, many of which exceeded the inflation rate. Despite the welcome news of recent low inflation and expected moderate inflation in future years, there is no reasonable hope that the problem of the fuel tax revenue not keeping up with increasing expenses will be resolved.

Michigan's economic recovery has been positively impacted by increased auto sales, resulting in an annual increase of 3.8 percent in the state's vehicle registration fees. The vehicle registration fees are the second largest source of operating revenue for the Road Commission. The combination of increasing fuel tax revenue and increasing vehicle registration fees has resulted in a 3.8 percent increase in FY2014 from the prior fiscal year in the Road Commission's Michigan Transportation Fund (MTF) revenue. However, from 2004 to 2014, MTF revenues were down 5.4 percent statewide and 3.2 percent for the Road Commission. The most recent annual revenue forecast by the state Treasury Department projected that the state's transportation revenues (MTF) would finally increase by 0.9 percent in FY2015. Because the Road Commission has experienced lesser increases than the state-wide average, the Road Commission used an anticipated 0.81 percent increase for FY2016 through FY2018 rather than 0.9 percent.

Other events that adversely affect the Road Commission are the State's continued annual transfer of \$10 million from the MTF to the Secretary of State and the ongoing Inter-Departmental Grants (IDGs) to various other state departments. In addition, in its ongoing effort to balance its budget, the Michigan state government continues to evaluate various alternatives for shifting state-wide financial resources, and this evaluation may include reallocating some current resources from transportation purposes to other uses. Consistent with the above events, this Financial Plan continues to highlight a troubling trend: The state-collected revenues that the Road Commission uses for road maintenance and operating expenses continue to lag inflation, meaning our costs are increasing more rapidly than our funding. The Road Commission strongly advocates an increase in the state's fuel taxes and other user fees as part of the remedy to this situation. Failure to adequately fund Michigan's road needs will result in a return to the poor statewide road conditions of the mid-1990s.

In addition, during its three-year financial planning (FP) process, the Road Commission continued to deal with the dilemma of its stagnant revenues and its rising costs of doing business activities. The FP process included balancing road maintenance efforts, appropriate staffing levels, and adequate fleet level readiness. One of the recommendations resulting from the FP process is for the Road Commission to continue to reduce its staffing levels by 160 positions for its fiscal year 2016 financial plan. To help focus public attention to Michigan's inadequate road funding, the Road Commission has been giving the following advice to its customers:

# **Road Commission for Oakland County**

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## **Management's Discussion and Analysis (Continued)**

“Take a close look at the roads you drive. Unless we receive additional funding, this is the best they will look for a long time. We no longer have funds to repair the roads to eliminate potholes on our paved roads or to add more gravel to our gravel roads. The roads will get worse, and that will impact our ability to attract new employers and developers and retain the jobs we have. It also means you'll pay more to repair the damage to your car caused by rough roads.”

### **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens, and other interested parties with a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

# Road Commission for Oakland County

## Statement of Net Position/Governmental Funds Balance Sheet September 30, 2014

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
<b>Assets</b>					
Cash and cash equivalents (Note 4)	\$ 52,012,266	\$ 6,556,561	\$ 58,568,827	\$ -	\$ 58,568,827
Receivables:					
Accounts	15,768,510	-	15,768,510	-	15,768,510
Special assessments	-	7,063,934	7,063,934	-	7,063,934
Internal receivables	589,523	(589,523)	-	-	-
Inventory	4,052,476	-	4,052,476	-	4,052,476
Deposits, prepaid expenses, and other assets	3,412,858	-	3,412,858	-	3,412,858
Net pension asset (Note 11)	-	-	-	2,246,070	2,246,070
Capital assets (Note 5):					
Assets not subject to depreciation	-	-	-	191,943,284	191,943,284
Assets subject to depreciation	-	-	-	572,664,010	572,664,010
<b>Total assets</b>	<b>\$ 75,835,633</b>	<b>\$ 13,030,972</b>	<b>\$ 88,866,605</b>	766,853,364	855,719,969
<b>Liabilities</b>					
Accounts payable	\$ 15,344,242	\$ 11,022	\$ 15,355,264	-	15,355,264
Advances and unearned revenue	12,442,416	337,806	12,780,222	-	12,780,222
Deposits	1,511,999	-	1,511,999	-	1,511,999
Accrued liabilities and other	1,880,808	-	1,880,808	6,667	1,887,475
Noncurrent liabilities:					
Due within one year:					
Other long-term liabilities (Notes 6 and 8)	-	-	-	858,360	858,360
Notes payable (Note 6)	-	-	-	500,000	500,000
Due in more than one year:					
Compensated absences (Note 6)	-	-	-	2,811,150	2,811,150
Other long-term liabilities (Notes 6 and 8)	-	-	-	1,096,440	1,096,440
Net OPEB obligation (Notes 6 and 10)	-	-	-	16,463,767	16,463,767
Notes payable (Note 6)	-	-	-	500,000	500,000
<b>Total liabilities</b>	<b>31,179,465</b>	<b>348,828</b>	<b>31,528,293</b>	22,236,384	53,764,677
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue (Notes 1 and 13)	2,319,986	5,371,343	7,691,329	(7,691,329)	-
<b>Fund Balance</b>					
Nonspendable:					
Inventory	4,052,476	-	4,052,476	(4,052,476)	-
Prepays	3,412,858	-	3,412,858	(3,412,858)	-
Assigned (Note 9)	34,870,848	7,310,801	42,181,649	(42,181,649)	-
<b>Total fund balance</b>	<b>42,336,182</b>	<b>7,310,801</b>	<b>49,646,983</b>	(49,646,983)	-
<b>Total liabilities, deferred inflows, and fund balance</b>	<b>\$ 75,835,633</b>	<b>\$ 13,030,972</b>	<b>\$ 88,866,605</b>		
<b>Net Position</b>					
Net investment in capital assets				763,607,294	763,607,294
Unrestricted				38,347,998	38,347,998
<b>Total net position</b>				<b>\$ 801,955,292</b>	<b>\$ 801,955,292</b>

The Notes to Financial Statements are  
an Integral Part of this Statement.

# Road Commission for Oakland County

## Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balances Year Ended September 30, 2014

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Activities
<b>Revenue</b>					
State aid - Act 51	\$ 62,436,451	\$ -	\$ 62,436,451	\$ -	\$ 62,436,451
Other state sources	22,350,559	-	22,350,559	202,683	22,553,242
Federal sources	27,389,343	-	27,389,343	1,115,578	28,504,921
Revenue from county and local governments	12,338,874	-	12,338,874	79,388	12,418,262
Special assessment revenue	-	2,852,344	2,852,344	(855,891)	1,996,453
Interest	533,342	354,788	888,130	-	888,130
Fees and other revenue	2,221,069	-	2,221,069	435,244	2,656,313
Total revenue	127,269,638	3,207,132	130,476,770	977,002	131,453,772
<b>Expenditures</b>					
General administration	5,490,541	-	5,490,541	(148,502)	5,342,039
Central operations	9,978,142	-	9,978,142	(1,753,810)	8,224,332
Engineering department	4,429,001	-	4,429,001	(4,309,282)	119,719
Traffic department	9,208,061	-	9,208,061	(2,295,081)	6,912,980
Maintenance department	27,007,895	-	27,007,895	(4,056,237)	22,951,658
Nondepartmental	20,480,218	-	20,480,218	(1,467,421)	19,012,797
Debt service:					
Principal payments	-	500,000	500,000	(500,000)	-
Interest and other	-	55,347	55,347	(3,333)	52,014
Project expenditures:					
Road improvement program and construction	48,573,147	2,074,737	50,647,884	(50,422,573)	225,311
Signals	3,747,009	-	3,747,009	(3,747,009)	-
Depreciation expense	-	-	-	40,424,590	40,424,590
Total expenditures	128,914,014	2,630,084	131,544,098	(28,278,658)	103,265,440
<b>Net Change in Fund Balances/Net Position</b>	(1,644,376)	577,048	(1,067,328)	29,255,660	28,188,332
<b>Fund Balances/Net Position - Beginning of year</b>	43,980,558	6,733,753	50,714,311	723,052,649	773,766,960
<b>Fund Balances/Net Position - End of year</b>	<b>\$ 42,336,182</b>	<b>\$ 7,310,801</b>	<b>\$ 49,646,983</b>	<b>\$ 752,308,309</b>	<b>\$ 801,955,292</b>

# Road Commission for Oakland County

## Fiduciary Funds Statement of Fiduciary Net Position December 31, 2013 (Notes I and 4)

	Retirement System	Retiree Health Care Trust
<b>Assets</b>		
Cash and cash equivalents (Note 4)	\$ 8,789,948	\$ 1,290,608
Investments (Note 4):		
U.S. government debt obligations	-	613,115
U.S. agencies debt obligations	12,382,839	2,243,079
Corporate debt obligations	3,373,952	1,911,025
Foreign debt obligations	-	686,238
Municipal debt obligations	20,278,921	-
Corporate mortgage/asset-backed securities	-	262,332
Corporate equities	145,246,570	17,800,825
Interest in investment pools	6,063,640	-
Limited partnerships	592,508	-
Receivables - Interest and dividends	537,714	52,463
Total assets	197,266,092	24,859,685
<b>Liabilities</b>		
Accounts payable - Brokers and other - Net	1,282,634	2,259
Securities lending collateral payable	6,266,236	-
Total liabilities	7,548,870	2,259
<b>Net Position</b> - Held in trust for retiree benefits	<b>\$ 189,717,222</b>	<b>\$ 24,857,426</b>

# Road Commission for Oakland County

## Fiduciary Funds

### Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2013 (Notes 1 and 4)

	Retirement System	Retiree Health Care Trust
<b>Additions</b>		
Investment income:		
Interest and dividends	\$ 5,016,663	\$ 514,345
Net increase in fair value of investments	23,795,969	3,018,743
Less investment expenses	(1,355,236)	(180,933)
Net investment income	27,457,396	3,352,155
Securities lending income	72,875	-
Contributions:		
Employer	4,500,011	6,759,350
Employee	11,165	-
Total contributions	4,511,176	6,759,350
Total additions	32,041,447	10,111,505
<b>Deductions - Benefit payments</b>	13,310,868	6,109,350
<b>Net Increase</b>	18,730,579	4,002,155
<b>Net Position Held in Trust for Pension and Retiree Healthcare Benefits - Beginning of year</b>	170,986,643	20,855,271
<b>Net Position Held in Trust for Pension and Retiree Healthcare Benefits - End of year</b>	<b>\$ 189,717,222</b>	<b>\$ 24,857,426</b>

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note I - Summary of Significant Accounting Policies

The Road Commission for Oakland County, Michigan (the "Road Commission") is a governmental agency, legally titled the Board of County Road Commissioners of the County of Oakland, which is responsible for the maintenance and construction of the road system in the county. The Road Commission's financial statements will be included in the basic financial statements of the County of Oakland, Michigan.

All funds of the Road Commission have a September 30 year end except the Retirement System and the Retiree Health Care Trust, which are fiduciary funds maintained on a calendar year reporting basis. The September 30, 2014 financial statements of the Road Commission include certain Retirement System and Retiree Health Care Trust financial data as previously reported at December 31, 2013, the latest available financial statements of the Retirement System and the Retiree Health Care Trust.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

In accordance with GASB Statement No. 34 definitions, the Road Commission has summarized its September 30, 2014 revenue into the following program revenue categories:

Charges for services	\$ 22,942,291
Operating grants and contributions	63,035,179
Capital grants and contributions	<u>45,476,302</u>
Total revenue	<u>\$ 131,453,772</u>

### **Basic Financial Statements - Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been stated in conjunction with the government-wide financial statements.

The major individual governmental funds are reported in separate columns in the fund financial statements.

# Road Commission for Oakland County

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## Notes to Financial Statements September 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized as the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are generally recorded only when payment is due.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance is available, the Road Commission's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Road Commission's policy to spend funds in this order: committed, assigned, and unassigned.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred inflows of resources are recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Commission reports the following major governmental funds:

**Road Fund** - The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

# Road Commission for Oakland County

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## Notes to Financial Statements September 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

**Subdivision Improvement Fund** - The Subdivision Improvement Fund is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

The Road Commission also reports the following additional funds:

**Retirement System** - The Retirement System (the "System") is a Pension Trust Fund used to account for assets held by the Road Commission in a trustee capacity that will be used to fund future retirement benefits for eligible beneficiaries.

**Retiree Health Care Trust** - The Retiree Health Care Trust (the "Trust") is used to account for assets held by the Road Commission in a trustee capacity that will be used to fund future payment of medical benefits for eligible retirees and their spouses and dependents. The Trust is a single-employer retiree healthcare trust that is administered by the Road Commission's board of trustees.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are primarily amounts due from other units of government. Accounts receivable at September 30, 2014 are recorded net of approximately \$96,000 of allowances.

**Inventory and Prepaid Expenses** - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses or deposits in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

Depreciation charges in 2014 totaled \$40,424,590 based on the following methods and useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	25-50
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Sum of years - Digits and straight-line	4-10
Brine wells and gravel pits	Straight-line and units of production	Various
Infrastructure:		
Roads	Straight-line	5-30
Other	Straight-line	10-50

**Compensated Absences (Vacation and Sick Leave)** - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. During fiscal year 2014, the Road Commission had deferred inflows of resources related to grant reimbursement funding and special assessment receivables that were not received within the 60-day period of availability.

# Road Commission for Oakland County

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## Notes to Financial Statements September 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

**Pension and Other Postemployment Benefit Costs** - The Road Commission offers both pension and retiree healthcare benefits to retirees. The Road Commission receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the Road Fund, pension and OPEB costs are recognized as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts.

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Road Commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body or director of finance, who is authorized by resolution approved by the board to make assignments.

# Road Commission for Oakland County

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## Notes to Financial Statements September 30, 2014

### Note 2 - Upcoming Accounting Pronouncements

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately-issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the Road Commission for Oakland County Retirement System, this standard will be adopted for the year ended September 30, 2015. The Retirement System has a December 31 year end. GASB Statement No. 67 will be implemented for the Retirement System's December 31, 2014 year end. The September 30, 2015 report will include the Retirement System statements as of December 31, 2014, which will be the first year of implementing GASB Statement No. 67.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending September 30, 2015.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 3 - Reconciliation of Government-wide and Fund Financial Statements

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Fund Balance Reported in Governmental Funds</b>	<b>\$ 49,646,983</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	764,607,294
Net pension assets do not represent financial resources and are not reported in the funds	2,246,070
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	5,371,343
Federal, state, local, and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	2,319,986
Notes payable are not due and payable in the current period and are not reported in the funds	(1,000,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(6,667)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(2,811,150)
Net OPEB obligations do not present a claim on current financial resources and are not reported as fund liabilities	(16,463,767)
Other long-term liabilities, such as claims and judgments, do not present a claim on current financial resources and are not reported as fund liabilities	<u>(1,954,800)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 801,955,292</u></b>

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 3 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

**Net Change in Fund Balances - Total Governmental Funds**                      \$    (1,067,328)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	69,944,013
Depreciation expense	(40,424,590)

Special assessment revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(855,891)
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In the governmental funds, federal, state, and local revenue (including insurance claims receivable) not collected within 60 days of year end is not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	1,415,651
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	500,000
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Change in accrued interest payable and other	3,333
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Changes in accumulated sick and vacation pay, net other postemployment obligations, net pension assets, and estimated general liability and workers' compensation claims are recorded when earned in the statement of activities	<u>(1,326,856)</u>
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<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 28,188,332</u></b>
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# Road Commission for Oakland County

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## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which, for other than its Retirement System and Retiree Health Care Trust assets, are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$8,641,501 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. As of year end, the Road Commission has \$43,672,945 invested in the Oakland County Investment Pool, which had an average maturity of investments of 1.55 years.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. In the current year, the Road Commission has no investments in commercial paper. The Road Commission has no investment policy that would further limit its investment choices.

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Government Obligations Fund IS	\$ 6,511,948	Aaa	Moody's
Oakland County Investment Pool	43,672,945	Not rated	N/A
Total	<u>\$ 50,184,893</u>		

**Concentration of Credit Risk** - The Road Commission places no limit on the amount it may invest in any one issuer. The Road Commission has approximately \$43.7 million invested in the Oakland County Investment Pool and \$6.5 million invested in the Government Obligations Fund IS at Federated Bank at September 30, 2014. These investments represent approximately 75 percent and 11 percent, respectively, of total cash equivalents reported on the governmental funds balance sheet/statement of net position at September 30, 2014. The Oakland County Investment Pool is not registered with the SEC and does not issue a separate report. The Oakland County Investment Pool is managed as a 2(a)7 fund with its net asset value maintained at \$1. Fair value of the position in the pool is the same as the value of the pool shares.

### **Retirement System Deposits and Investments (as of December 31, 2013)**

The Retirement System (the "System") is authorized by Michigan Public Act 314 of 1965 (the "Act"), as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt, or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The System has designated two banks for the deposit of its funds. The System's deposits and investment policies are compliant with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments (Continued)

At December 31, 2013, the System had approximately \$878,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. Each of the accounts of the System's seven investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policies do not restrict investment maturities other than commercial paper which, under state law, can only be purchased with no more than a 270-day maturity. At December 31, 2013, the average maturities of investments are as follows:

Investment Type	Fair Value	Less than 1 year	1-5 Years	6-10 Years	More than 10 Years
U.S. agency	\$ 12,382,839	\$ 19,240	\$ 2,249,420	\$ 5,819,605	\$ 4,294,574
Municipal debt obligations	20,278,921	-	1,683,634	700,151	17,895,136
Corporate bonds	3,373,952	219,250	891,614	1,153,811	1,109,277
Total	\$ 36,035,712	\$ 238,490	\$ 4,824,668	\$ 7,673,567	\$ 23,298,987

**Credit Risk** - As of December 31, 2013, the System's debt securities, other than the U.S. government and agency obligations, were comprised substantially of state and local municipal bonds, corporate bonds, and collateralized mortgage obligations.

The System's investment policy provides the fixed-income investment portfolio may be invested in quality fixed-income instruments with an S&P rating of A or better, or a comparable rating. With the exception of U.S. government and/or federal agency securities, no issuer commitment, on a market value basis, should exceed 10 percent of the total portfolio at the time of the initial security purchase or subsequently exceed 20 percent of the total portfolio.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments (Continued)

The credit ratings of these securities at December 31, 2013 are as follows:

<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
\$ 2,888,083	AAA	S&P
11,002,494	AA	S&P
10,358,838	A	S&P
<u>19,453,682</u>	Not rated	N/A
<u>\$ 43,703,097</u>		

**Securities Lending Transactions** - State statutes and the board of trustees' investment policies permit participation of the System in 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. The System, via a securities lending authorization agreement, authorized the custodial bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2013, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

The System did not impose any restrictions during the fiscal year on the amount of loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2013. There were no losses to the System or the custodial bank during the year ended December 31, 2013 resulting from default of the borrowers. One of the instruments acquired by the securities lending program (comprising approximately 3.2 percent of the total portfolio) has incurred an unrealized loss in fair market value. The System has initiated litigation with the counterparties to attempt to recoup any potential loss.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments (Continued)

During the year ended December 31, 2013, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The System's share of the short-term investment pool includes a floating rate note with zero market value. The floating rate note is rated "D" by S&P. The remaining investments in the pool consist of cash equivalents and mutual funds with an S&P rating of AAAM. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held (at market) and the fair values of the underlying securities on loan as of December 31, 2013 were \$6,063,640 and \$6,118,054, respectively.

#### Retiree Health Care Trust Deposits and Investments (As of December 31, 2013)

The Retiree Health Care Trust (the "Trust") is authorized by Michigan Public Act 314 of 1965, as amended (the "Act"), to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The Trust has designated one bank for the deposit of its funds. The Trust's deposits and investment policies are in accordance with statutory authority.

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. At year end, the Trust had \$948,439 in bank deposits (cash and money market accounts) that were uninsured and uncollateralized. Each of the accounts of the Trust's four investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace stocks or bonds held by the broker-dealer. The Trust believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Trust evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Trust's investment policy does not have specific restrictions on investment maturities. At December 31, 2013, the average maturities of debt security investments are as follows:

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 4 - Deposits and Investments (Continued)

Investment Type	Fair Value	Less than 1 year	1-5 Years	6-10 Years	More than 10 Years
U.S. government obligations	\$ 613,115	\$ -	\$ 138,713	\$ 474,402	\$ -
U.S. agency obligations	2,243,079	-	531,976	807,812	903,291
Corporate bonds	1,911,025	181,737	1,283,119	446,169	-
Foreign bonds	686,238	-	380,001	306,237	-
Corporate mortgage-/asset- backed securities	262,332	-	-	45,359	216,973
Total	<u>\$ 5,715,789</u>	<u>\$ 181,737</u>	<u>\$ 2,333,809</u>	<u>\$ 2,079,979</u>	<u>\$ 1,120,264</u>

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Trust. The Trust has no investment policy that would limit its investment choices other than what is allowed by state law. At December 31, 2013, the Trust held U.S. agency obligations, corporate bonds, corporate mortgage/asset-backed securities, and foreign bonds subject to credit risk. The credit ratings of these securities are as follows:

Fair Value	Rating	Rating Organization
\$ 228,902	AAA	S&P
33,048	AAA	Moody's
1,344,384	AA+	S&P
314,331	AA	S&P
424,376	AA-	S&P
544,297	A+	S&P
581,050	A	S&P
380,139	A-	S&P
1,252,146	Not rated	S&P
<u>\$ 5,102,673</u>		

### Risks and Uncertainties

The Road Commission invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

Governmental Activities	Balance	Additions	Disposals	Balance
	October 1, 2013			September 30, 2014
Capital assets not being depreciated:				
Land used for infrastructure	\$ 183,063,885	\$ 5,591,330	\$ -	\$ 188,655,215
Land	1,887,459	-	-	1,887,459
Construction in progress	968,230	432,380	-	1,400,610
Subtotal	185,919,574	6,023,710	-	191,943,284
Capital assets being depreciated:				
Infrastructure	903,509,078	59,525,917	(14,742,303)	948,292,692
Buildings and storage bins	20,192,210	-	-	20,192,210
Road equipment	48,813,727	4,281,160	(668,708)	52,426,179
Other equipment	4,960,760	113,226	-	5,073,986
Brine walls and gravel pits	1,461,628	-	-	1,461,628
Subtotal	978,937,403	63,920,303	(15,411,011)	1,027,446,695
Accumulated depreciation:				
Infrastructure	366,167,943	38,338,352	(14,742,303)	389,763,992
Buildings and storage bins	10,824,150	725,635	-	11,549,785
Road equipment	46,766,432	1,188,737	(668,708)	47,286,461
Other equipment	4,670,365	120,560	-	4,790,925
Brine walls and gravel pits	1,340,216	51,306	-	1,391,522
Subtotal	429,769,106	40,424,590	(15,411,011)	454,782,685
Net capital assets being depreciated	549,168,297	23,495,713	-	572,664,010
Net capital assets	\$ 735,087,871	\$ 29,519,423	\$ -	\$ 764,607,294

### Note 6 - Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2014:

	Interest Rate (Percent)	Maturing Through	Balance	Additions	Reductions	Balance	Due Within One Year
			October 1, 2013			September 30, 2014	
2007 Michigan Transportation Fund revenue note	4.00	2016	\$ 1,500,000	\$ -	\$ (500,000)	\$ 1,000,000	\$ 500,000
Other long-term liabilities:							
Provision for uninsured losses			2,447,033	453,067	(945,300)	1,954,800	858,360
Employee compensated absences			2,666,700	144,450	-	2,811,150	-
Net other postemployment benefits			14,783,249	1,680,518	-	16,463,767	-
Total long-term debt			\$ 21,396,982	\$ 2,278,035	\$ (1,445,300)	\$ 22,229,717	\$ 1,358,360

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 6 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$55,000, all of which related to the Subdivision Improvement Fund. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 500,000	\$ 40,000	\$ 540,000
2016	500,000	20,000	520,000
Total	<u>\$ 1,000,000</u>	<u>\$ 60,000</u>	<u>\$ 1,060,000</u>

### Note 7 - Contingent Liabilities

The Road Commission has been named as a defendant in numerous accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program (see Note 8). It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters have been recorded as a liability at September 30, 2014. The government-wide statements include both the current and long-term portions of the estimated liability.

There are also several nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters have been recorded in the Road Fund at September 30, 2014. The government-wide statements include both the current and long-term portions of the estimated liability.

The Road Commission has received federal highway grants through the Michigan Department of Transportation for its Integrated Transportation System (ITS) project. These federal grants have certain compliance provisions including a requirement for nonfederal participation in project costs (matching requirement) and a responsibility for the Road Commission to eventually audit the finalized third-party costs for goods and services that have either been charged to certain project contracts or contributed to the project.

The effect on the recorded revenue and expenditures of the ITS projects, if any, that may result from the Road Commission's future audits of final third-party contract and contribution costs cannot be determined at this time. However, it is the opinion of the management of the Road Commission that such amounts and the resultant effects on fund balance, if any, would not be material.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 8 - Insurance Programs

The Road Commission is exposed to various risks of loss related to general liability claims, property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission is partially uninsured for these claims up to a retention amount and for losses in excess of the maximum insurance coverage.

#### Estimated Liabilities

Management has established estimates of the liability for the asserted claims and lawsuits and the unasserted claims related to all of the above-mentioned matters and have recorded the estimated liability at September 30, 2014. However, with respect to unasserted claims, it is not currently possible for management or legal counsel to determine that the ultimate liability, if any, related to these matters will not differ materially from the amounts currently provided.

Changes in the estimated liability for the years ended September 30, 2013 and 2014 are as follows:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Medical</u>	<u>Total</u>
Estimated liability - October 1, 2012	\$ 1,171,100	\$ 2,661,918	\$ -	\$ 3,833,018
Estimated claims incurred, including changes in estimates	316,287	451,984	11,568,069	12,336,340
Claim payments, including related legal and administrative expenses	<u>(359,387)</u>	<u>(895,869)</u>	<u>(11,568,069)</u>	<u>(12,823,325)</u>
Estimated liability - September 30, 2013	1,128,000	2,218,033	-	3,346,033
Estimated claims incurred, including changes in estimates	607,309	(106,194)	11,475,985	11,977,100
Claim payments, including related legal and administrative expenses	<u>(580,509)</u>	<u>(411,839)</u>	<u>(11,475,985)</u>	<u>(12,468,333)</u>
Estimated liability - September 30, 2014	<u>\$ 1,154,800</u>	<u>\$ 1,700,000</u>	<u>\$ -</u>	<u>\$ 2,854,800</u>
Estimated current portion - Included in accrued liabilities in the Road Fund	\$ 900,000	\$ -	\$ -	\$ 900,000
Estimated long-term portion	<u>254,800</u>	<u>1,700,000</u>	<u>-</u>	<u>1,954,800</u>
Total estimated liability	<u>\$ 1,154,800</u>	<u>\$ 1,700,000</u>	<u>\$ -</u>	<u>\$ 2,854,800</u>

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 9 - Assigned Fund Balances

Fund balances of the Road Commission's governmental funds have been assigned for the following purposes:

	Road Fund	Subdivision Improvement Fund	Total
Subsequent year's budget	\$ 2,748,000	\$ -	\$ 2,748,000
Construction	2,409,279	-	2,409,279
Capital outlay and contracted services	5,717,930	-	5,717,930
Future years' capital acquisitions and maintenance projects	7,387,081	-	7,387,081
Future years' tri-party construction participation	6,500,000	-	6,500,000
Long-term portion of provision for:			
Postemployment benefits	4,142,208	-	4,142,208
Uninsured losses	3,155,200	-	3,155,200
Compensated absences	2,811,150	-	2,811,150
Special assessment construction	-	7,310,801	7,310,801
Total	<u>\$ 34,870,848</u>	<u>\$ 7,310,801</u>	<u>\$ 42,181,649</u>

### Note 10 - Retiree Healthcare Benefits

**Plan Description** - The Road Commission contributes to the Road Commission for Oakland County Retiree Health Care Trust (the "Trust"). The Trust, which was established by the Road Commission on January 26, 2006, provides for future payment of medical benefits for eligible retirees, their spouses, and their dependents. The obligation to provide benefits to employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2012, the date of the most recent actuarial valuation, membership consisted of 689 retirees and beneficiaries currently receiving benefits, 306 vested active employees, and 92 nonvested active employees.

A complete analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability is reported in the Road Commission's Retiree Health Care Trust financial report as of December 31, 2013. A copy of this report may be obtained from the Road Commission's administrative office, located at 31001 Lahser Road, Beverly Hills, MI 48025.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 10 - Retiree Healthcare Benefits (Continued)

The Trust is included in the Road Commission's financial statements as a Retiree Health Care Trust. At December 31, 2013, the assets of the Trust included no securities or loans to the Road Commission or any other related party. The Trust is administered by the Road Commission for Oakland County Retirement System Board of Trustees. Please refer to Note 1 for further significant accounting policies.

**Funding Policy** - The Road Commission may partially or fully fund the liability of the Trust by periodically making contributions to the Trust. The Road Commission's funding policy is to pay all premiums as they come due from the Road Fund; in addition, the Road Commission intends to set aside funding in the Trust from time to time as it deems appropriate.

**Funding Progress** - For the year ended September 30, 2014, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2012. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 8,918,423
Interest on the prior year's net OPEB obligation	886,995
Less adjustment to the annual required contribution	<u>(794,636)</u>
Annual OPEB cost	9,010,782
Amounts contributed:	
Payments of current premiums	(6,680,264)
Advance funding contributions	<u>(650,000)</u>
Increase in net OPEB obligation	1,680,518
OPEB obligation - Beginning of year	<u>14,783,249</u>
OPEB obligation - End of year	<u>\$ 16,463,767</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
9/30/12	12/31/10	\$ 7,874,924	95.4 %	\$ 12,271,525
9/30/13	12/31/12	8,947,413	71.9	14,783,249
9/30/14	12/31/12	9,010,782	81.3	16,463,767

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 10 - Retiree Healthcare Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 10,368,617	\$ 127,455,270	\$ 117,086,653	8.1 %	\$ 29,242,273	400.4 %
12/31/10	17,831,624	136,635,101	118,803,477	13.1	26,377,984	450.4
12/31/12	20,855,271	141,817,626	120,962,355	14.7	24,164,524	500.6

**Actuarial Methods and Assumptions** - 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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the calculations.

In the December 31, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6 percent investment rate of return, projected salary increases of 3.5 percent to 7.0 percent, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 3.5 percent after 10 years. All rates included a 3.5 percent inflation assumption. The actuarial value of assets is the reported market value of assets. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2012 was 24 years.

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 11 - Defined Benefit Pension Plan

**Plan Description** - The Road Commission contributes to the Road Commission for Oakland County Retirement System (the "System"), which is the administrator of a single-employer public employees' retirement system that covers substantially all employees of the Road Commission. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The System currently requires no employee contribution. The obligation of the Road Commission to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2013, the date of the most recent actuarial valuation, membership consisted of 575 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 364 current active employees.

A complete analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability is reported in the Road Commission's Retirement System financial report as of December 31, 2013. A copy of this report may be obtained from the Road Commission's administrative office, located at 31001 Lahser Road, Beverly Hills, MI 48025.

The System is included in the Road Commission's financial statements as a retirement system. At December 31, 2013, the assets of the System included no securities of or loans to the Road Commission or any other related party and there were no investments in any one organization (other than the U.S. government and U.S. government guaranteed obligations) in excess of 5 percent of net position available for benefits. Please refer to Note 1 for further significant accounting policies.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units or other actions of the Oakland County Board of Road Commissioners.

#### Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ 4,541,767
Interest on net pension obligation	(168,013)
Adjustment to annual required contribution	<u>120,367</u>
Annual pension cost (APC)	4,494,121
Contributions made	<u>(4,500,000)</u>
Increase in net pension asset	(5,879)
Net pension asset - Beginning of year	<u>(2,240,191)</u>
Net pension asset - End of year	<u>\$ (2,246,070)</u>

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 11 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended September 30, 2014, the Road Commission's annual pension cost was \$4,494,120 for the plan, which was slightly less than the required contribution of \$4,541,767. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended September 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 4,494,121	\$ 4,000,107	\$ 3,589,611
Percentage of APC contributed	100.1 %	112.0 %	125.0 %
Net pension asset	\$ 2,246,070	\$ 2,240,191	\$ 1,740,298

**Funded Status and Funding Progress** - The funding status for the three most recent actuarial valuations is as follows:

	Fiscal Year Ended December 31		
	2013	2012	2011
Actuarial value of assets	\$ 175,711,836	\$ 165,950,002	\$ 168,873,084
Actuarial accrued liability (AAL)	\$ 198,885,929	\$ 193,097,597	\$ 189,106,943
Unfunded AAL (UAAL)	\$ 23,174,093	\$ 27,147,595	\$ 20,233,859
Funded ratio	88.3 %	85.9 %	89.3 %
Covered payroll	\$ 22,959,327	\$ 24,285,779	\$ 26,242,934
UAAL as a percentage of covered payroll	100.9 %	111.8 %	77.1 %

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 investment rate of return, (b) projected salary increases of 4.5 to 6.0 percent per year, and no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

**Reserves** - As of December 31, 2013, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 29,958
Reserve for retired benefit payments	116,709,929

# Road Commission for Oakland County

## Notes to Financial Statements September 30, 2014

### Note 12 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at September 30, 2014, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$36,960,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will approximate \$7 million.

### Note 13 - Change in Accounting

During the current year, the Road Commission adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Revenue in Road and Subdivision Improvement Funds was not collected within 60 days of year end	\$ 7,691,329	Liability	Deferred inflow of resources

## **Required Supplemental Information**

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# Road Commission for Oakland County

## Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
State aid - Act 51	\$ 58,718,400	\$ 58,718,400	\$ 62,436,451	\$ 3,718,051
Other state sources	12,405,000	21,909,008	22,350,559	441,551
Federal sources	23,740,500	32,945,925	27,389,343	(5,556,582)
Revenue from county and local governments	9,186,881	13,825,492	12,338,874	(1,486,618)
Interest on investments	100,000	100,000	533,342	433,342
Fees and other revenue	1,919,869	1,919,869	2,221,069	301,200
<b>Total revenue</b>	<b>106,070,650</b>	<b>129,418,694</b>	<b>127,269,638</b>	<b>(2,149,056)</b>
<b>Expenditures</b>				
General administration:				
Board of County Road Commissioners	156,683	156,683	120,543	36,140
Managing director	647,139	652,139	600,538	51,601
Planning and development	1,467,298	1,493,384	1,250,270	243,114
Citizens' services	856,096	906,096	911,830	(5,734)
Finance department	882,362	907,362	870,729	36,633
Legal department	587,033	577,033	506,169	70,864
Human resources department	836,520	1,286,520	1,230,462	56,058
<b>Total general administration</b>	<b>5,433,131</b>	<b>5,979,217</b>	<b>5,490,541</b>	<b>488,676</b>
Central operations	9,727,253	11,411,293	9,978,142	1,433,151
Engineering department	4,393,106	4,493,606	4,429,001	64,605
Traffic department	8,936,557	11,281,020	9,208,061	2,072,959
Maintenance department	18,228,802	30,649,565	27,007,895	3,641,670
Nondepartmental	23,071,301	23,006,401	20,480,218	2,526,183
Debt service	500,500	500,500	-	500,500
<b>Total expenditures before project expenditures</b>	<b>70,290,650</b>	<b>87,321,602</b>	<b>76,593,858</b>	<b>10,727,744</b>
Project expenditures:				
Road improvement program and construction	35,060,000	60,254,011	48,573,147	11,680,864
Signals	2,675,000	4,806,770	3,747,009	1,059,761
<b>Total project expenditures</b>	<b>37,735,000</b>	<b>65,060,781</b>	<b>52,320,156</b>	<b>12,740,625</b>
<b>Total expenditures</b>	<b>108,025,650</b>	<b>152,382,383</b>	<b>128,914,014</b>	<b>23,468,369</b>
<b>Net Change in Fund Balance</b>	<b>(1,955,000)</b>	<b>(22,963,689)</b>	<b>(1,644,376)</b>	<b>\$ 21,319,313</b>
<b>Fund Balance - October 1, 2013</b>	<b>43,980,558</b>	<b>43,980,558</b>	<b>43,980,558</b>	
<b>Fund Balance - September 30, 2014</b>	<b>\$ 42,025,558</b>	<b>\$ 21,016,869</b>	<b>\$ 42,336,182</b>	

# Road Commission for Oakland County

## Required Supplemental Information Schedule of Funding Progress Pension System Year Ended September 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 168,873,084	\$ 189,106,943	\$ 20,233,859	89.3 %	\$ 26,242,934	77.1 %
12/31/12	165,950,002	193,097,597	27,147,595	85.9	24,285,779	111.8
12/31/13	175,711,836	198,885,929	23,174,093	88.3	22,959,327	100.9

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Pension Cost	Percentage Contributed
9/30/12	12/31/11	\$ 3,589,611	125.0 %
9/30/13	12/31/12	4,000,107	112.0
9/30/14	12/31/13	4,494,121	100.1

# Road Commission for Oakland County

## Required Supplemental Information Schedule of Funding Progress Other Postemployment Benefit Plan Year Ended September 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 10,368,617	\$ 127,455,270	\$ 117,086,653	8.1 %	\$ 29,242,273	400.4 %
12/31/10	17,831,624	136,635,101	118,803,477	13.1	26,377,984	450.4
12/31/12	20,855,271	141,817,626	120,962,355	14.7	24,164,524	500.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
9/30/12	12/31/10	\$ 7,874,924	95.4 %
9/30/13	12/31/12	8,947,413	71.9
9/30/14	12/31/12	9,010,782	83.1

# Road Commission for Oakland County

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## Note to Required Supplemental Information Year Ended September 30, 2014

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the "Uniform Budgeting Act"). The following is a summary of the requirements of this act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. A budget must be adopted for the Road Fund.
- b. Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The Road Commission's budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The Road Commission also has chosen to adopt a budget for its Subdivision Improvement Fund (a Capital Projects Fund). A comparison of actual results of operations to the Road Fund and Subdivision Improvement Fund budgets as adopted by the Board of Road Commissioners is included in the supplemental information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In July, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. Prior to September 30, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2014 is approximately \$15,400,000. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

# **Road Commission for Oakland County**

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## **Note to Required Supplemental Information (Continued) Year Ended September 30, 2014**

### **Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the Road Commission for Oakland County incurred citizens' services expenditures that were in excess of the amounts budgeted for the Road Fund in the amount of \$5,734.

## **Other Supplemental Information**

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# Road Commission for Oakland County

## Other Supplemental Information Budgetary Comparison Schedule Subdivision Improvement Fund Year Ended September 30, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Special assessment revenue	\$ 3,175,000	\$ 3,175,000	\$ 2,852,344	\$ (322,656)
Interest	250,000	250,000	354,788	104,788
Total revenue	3,425,000	3,425,000	3,207,132	(217,868)
<b>Expenditures</b>				
Debt service	1,144,333	561,000	555,347	5,653
Project expenditures - Road improvement program and construction	4,764,400	3,314,400	2,074,737	1,239,663
Total expenditures	5,908,733	3,875,400	2,630,084	1,245,316
<b>Excess of Expenditures Over Revenue</b>	(2,483,733)	(450,400)	577,048	1,027,448
<b>Other Financing Sources</b> - Proceeds from the issuance of bonds	5,000,000	-	-	-
<b>Change in Fund Balance</b>	2,516,267	(450,400)	577,048	<b>\$ 1,027,448</b>
<b>Fund Balance</b> - October 1, 2013	6,733,753	6,733,753	6,733,753	
<b>Fund Balance</b> - September 30, 2014	<b>\$ 9,250,020</b>	<b>\$ 6,283,353</b>	<b>\$ 7,310,801</b>	