

Road Commission for Oakland County

**Financial Report
with Supplemental Information
September 30, 2015**

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, 2015 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

Opinion

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, 2015 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. 68, *Accounting and Financial Reporting for Pensions*. As a result of implementing this pronouncement, the County's net pension liability has been recognized on the government-wide statements and the 2014 financial statements have been restated. 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 and pension and OPEB system schedules, 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 9, 2016 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 & Moran, PLLC

February 9, 2016

Road Commission for Oakland County

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, 2015. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position/governmental funds balance sheet 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 activities/governmental fund revenue, expenditures, and changes in fund balances 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 revenue, 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, 2015 and 2014 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 nonfinancial 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	
	2015	2014*
Assets		
Current and other assets	\$ 88,478,104	\$ 91,112,675
Capital assets	796,366,135	764,607,294
Total assets	884,844,239	855,719,969
Deferred Outflows of Resources	17,222,616	-
Liabilities		
Current liabilities	25,412,232	31,534,960
Long-term liabilities	53,747,191	30,269,494
Total liabilities	79,159,423	61,804,454
Net Position		
Net investment in capital assets	795,866,135	763,607,294
Unrestricted	27,041,297	30,308,221
Total net position	<u>\$ 822,907,432</u>	<u>\$ 793,915,515</u>
	Year Ended September 30	
	2015	2014*
Revenue		
State aid - Act 51	\$ 64,728,096	\$ 62,436,451
Other state sources	24,439,683	22,553,242
Federal sources	31,750,729	28,504,921
Revenue from county and local governments	15,701,839	12,418,262
Other	3,457,453	5,540,896
Total revenue	140,077,800	131,453,772
Expenses		
General administration	5,762,230	5,342,039
Departmental operations and maintenance	34,500,371	38,434,000
Nondepartmental	27,547,420	19,012,797
Interest	32,013	52,014
Depreciation	43,243,849	40,424,590
Total expenses	111,085,883	103,265,440
Change in net position	<u>\$ 28,991,917</u>	<u>\$ 28,188,332</u>

* GASB Statement No. 68 was implemented by the Road Commission in fiscal year 2015. Fiscal year 2014 unrestricted net position was reduced by approximately \$8 million to reflect the retroactive implementation of this change.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The Road Commission's net position increased approximately 3.7 percent, from \$793,915,515 to \$822,907,432 for the year ended September 30, 2015. 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 \$32,258,841 and \$30,019,423 for the years ended September 30, 2015 and 2014, respectively.

The Road Commission's revenue for the year ended September 30, 2015 increased 6.6 percent from the prior year total. Revenue from county and local governments, primarily representing participation in road construction projects, increased 26.4 percent as expenditures for road improvements and construction also increased significantly from the preceding year. Road construction activity for the current year increased 7.6 percent from that of the preceding year. Total expenses for the fiscal year ended September 30, 2015 were 7.6 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, 2015, the fund balance of the Road Fund increased by \$8,036,877. Total revenue was \$139,762,618 and total expenditures were \$131,725,741, which represented an increase in revenue from the prior year of 9.8 percent and an increase in expenditures from the prior year of 2.2 percent. The increase in revenue was due principally to increases in federal, 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, 2015 was \$49,448,172 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, 2015 was less than the amended budget by \$7,722,854.

The amended Road Fund expenditure budget for the year ended September 30, 2015 was \$61,759,733 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, 2015 were less than the amended budget by \$30,819,292 due principally to this type of expenditure timing difference.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2015 and 2014, the Road Commission had invested \$796,366,135 and \$764,607,294, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$31,758,841, or 4.2 percent. The Road Commission added \$75,006,569 to its investment in capital assets during the current year, including \$70,578,850 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:

	<u>2015</u>	<u>2014</u>
Buildings, storage bins, and related - Including land and construction in progress	\$ 408,245	\$ 432,380
Road equipment	3,843,925	4,281,160
Other equipment	175,549	113,226
Infrastructure - Including land	<u>70,578,850</u>	<u>65,117,247</u>
Total additions	<u>\$ 75,006,569</u>	<u>\$ 69,944,013</u>

Debt Administration

At September 30, 2015 and 2014, the Road Commission had \$500,000 and \$1,000,000, respectively, in outstanding notes payable.

Other long-term obligations include accrued vacation pay and sick leave, accrued postemployment benefit obligations, net pension liability, 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

In November 2015, the State of Michigan enacted nine bills into law which are intended to raise an additional \$1.2 billion of future revenue for transportation purposes. Beginning in 2017 and reaching full implementation in 2021, these bills include vehicle registration fees and fuel tax revenue increases as well as a phased-in dedication from Michigan's General Fund. The transfers from the General Fund will begin in 2018 at \$150 million and will reach a maximum annual amount of \$600 million per year in 2021, which will require the State to appropriate those funds each fiscal budget year. The Road Commission, in conjunction with the County Road Association of Michigan, is analyzing the future impact of these bills with special attention to the General Fund transfers and how future political considerations could impact the availability and transfer of those future funds.

Michigan is now well into its sixth year of economic recovery since hitting bottom at the beginning of 2010. Global issues that affect all entities include economic growth among U.S. trading partners, with particular concerns related to the Eurozone and the softer growth in China, the highly uncertain path of oil prices, and uncertainties over the phasing in of monetary policy tightening. On the positive side, the Michigan economy continues to improve as a result of events like lower fuel prices that have enabled the auto industry to rebound.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Despite these uncertainties, the U.S. economy has slowly been recovering. Consumer price inflation has remained controlled below 2 percent in 2015 and is projected to be between 2 percent and 3 percent in 2016 and 2017. The nation's unemployment rate is decreasing slowly, with a 5.3 percent for 2015 and projected 5.0 percent and 4.6 percent for 2016 and 2017, respectively. Michigan's unemployment rate was 5.1 percent in November 2015 and was ranked 29th lowest 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 17.2 million units in 2016 and 17.5 million units in 2017.

Michigan's economic recovery has been positively impacted by increased auto sales, resulting in an annual increase of 4.0 percent in the state's vehicle registration fees, the largest source of operating revenue for the Road Commission. Also, due to lower gas prices, gasoline usage has actually increased. As a result, the Road Commission's second largest source of operating revenue, the fuel tax, increased 3.9 percent in 2015. The combination of increasing fuel tax revenue and increasing vehicle registration fees has resulted in a 3.7 percent increase in 2015 from the prior fiscal year in the Road Commission's Michigan Transportation Fund (MTF) revenue. From 2005 to 2015, MTF revenues were up 2.0 percent statewide and 6.1 percent for the Road Commission for the 10-year period. The most recent annual revenue forecast by the state Treasury Department projected that the state's transportation revenue (MTF) would increase by 1.1 percent in 2016. Because the Road Commission has experienced lesser increases than the state-wide average, the Road Commission used an anticipated 0.99 percent increase for 2017 through 2019 projections, rather than 1.1 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, there continues to highlight a troubling trend: The state-collected revenue that the Road Commission uses for road maintenance and operating expenses continue to lag inflation, meaning our costs have been increasing more rapidly than our funding. The Road Commission hopes the recent legislative actions in Michigan will be 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.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

In addition, during its three-year financial planning (FP) process, the Road Commission continued to deal with the dilemma of its stagnant revenue and its rising costs of doing business activities and the uncertainties of the recent legislation. 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 2017 financial plan. To help focus public attention to Michigan's inadequate road funding, the Road Commission has been advising its customers:

"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, 2015

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
Assets					
Cash and cash equivalents (Note 4)	\$ 47,726,928	\$ 8,184,026	\$ 55,910,954	\$ -	\$ 55,910,954
Receivables:					
Accounts	18,863,394	-	18,863,394	-	18,863,394
Special assessments	-	5,362,018	5,362,018	-	5,362,018
Internal receivables	165,722	(165,722)	-	-	-
Inventory	4,648,821	-	4,648,821	-	4,648,821
Deposits, prepaid expenses, and other assets	3,692,917	-	3,692,917	-	3,692,917
Capital assets (Note 5):					
Assets not subject to depreciation	-	-	-	196,694,619	196,694,619
Assets subject to depreciation	-	-	-	599,671,516	599,671,516
Total assets	75,097,782	13,380,322	88,478,104	796,366,135	884,844,239
Deferred Outflows of Resources -					
Pension (Note 11)	-	-	-	17,222,616	17,222,616
Total assets and deferred outflows	\$ 75,097,782	\$ 13,380,322	\$ 88,478,104	813,588,751	902,066,855
Liabilities					
Accounts payable	\$ 10,796,678	\$ 5,588	\$ 10,802,266	-	10,802,266
Advances and unearned revenue	8,938,518	924,211	9,862,729	-	9,862,729
Deposits	1,752,754	-	1,752,754	-	1,752,754
Accrued liabilities and other	1,918,810	-	1,918,810	3,333	1,922,143
Noncurrent liabilities:					
Due within one year:					
Provision for uninsured losses (Notes 6 and 8)	-	-	-	572,340	572,340
Notes payable - Current (Note 6)	-	-	-	500,000	500,000
Due in more than one year:					
Compensated absences (Note 6)	-	-	-	3,018,250	3,018,250
Provision for uninsured losses (Notes 6 and 8)	-	-	-	673,860	673,860
Net OPEB obligation (Notes 6 and 10)	-	-	-	23,527,919	23,527,919
Net pension liability (Notes 6 and 11)	-	-	-	26,527,162	26,527,162
Total liabilities	23,406,760	929,799	24,336,559	54,822,864	79,159,423
Deferred Inflows of Resources -					
Unavailable revenue (Note 1)	1,317,963	3,879,450	5,197,413	(5,197,413)	-
Fund Balance					
Nonspendable:					
Inventory	4,648,821	-	4,648,821	(4,648,821)	-
Prepays	3,692,917	-	3,692,917	(3,692,917)	-
Assigned (Note 9)	42,031,321	8,571,073	50,602,394	(50,602,394)	-
Total fund balance	50,373,059	8,571,073	58,944,132	(58,944,132)	-
Total liabilities, deferred inflows, and fund balance	\$ 75,097,782	\$ 13,380,322	\$ 88,478,104		
Net Position					
Net investment in capital assets				795,866,135	795,866,135
Unrestricted				27,041,297	27,041,297
Total net position				\$ 822,907,432	\$ 822,907,432

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, 2015

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Activities
Revenue					
State aid - Act 51	\$ 64,728,096	\$ -	\$ 64,728,096	\$ -	\$ 64,728,096
Other state sources	24,649,919	-	24,649,919	(210,236)	24,439,683
Federal sources	32,480,730	-	32,480,730	(730,001)	31,750,729
Revenue from county and local governments	15,582,372	-	15,582,372	119,467	15,701,839
Special assessment revenue	-	1,827,575	1,827,575	(1,491,893)	335,682
Interest	348,506	428,076	776,582	-	776,582
Fees and other revenue	1,972,995	-	1,972,995	372,194	2,345,189
Total revenue	139,762,618	2,255,651	142,018,269	(1,940,469)	140,077,800
Expenditures					
General administration	5,956,622	-	5,956,622	(194,392)	5,762,230
Central operations	9,157,680	-	9,157,680	(2,117,602)	7,040,078
Engineering department	4,470,538	-	4,470,538	(4,470,538)	-
Traffic department	9,402,790	-	9,402,790	(2,818,453)	6,584,337
Maintenance department	23,946,625	-	23,946,625	(3,170,728)	20,775,897
Nondepartmental	20,718,831	-	20,718,831	6,828,589	27,547,420
Debt service:					
Principal payments	-	500,000	500,000	(500,000)	-
Interest and other	-	35,347	35,347	(3,334)	32,013
Project expenditures:					
Road improvement program and construction	54,659,874	460,032	55,119,906	(55,019,847)	100,059
Signals	3,412,781	-	3,412,781	(3,412,781)	-
Depreciation expense	-	-	-	43,243,849	43,243,849
Total expenditures	131,725,741	995,379	132,721,120	(21,635,237)	111,085,883
Net Change in Fund Balances/Net Position	8,036,877	1,260,272	9,297,149	19,694,768	28,991,917
Fund Balances/Net Position - Beginning of year - As restated (Note 13)	42,336,182	7,310,801	49,646,983	744,268,532	793,915,515
Fund Balances/Net Position - End of year	\$ 50,373,059	\$ 8,571,073	\$ 58,944,132	\$ 763,963,300	\$ 822,907,432

Road Commission for Oakland County

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2014 (Notes I and 4)

	Retirement System	Retiree Health Care Trust
Assets		
Cash and short-term investments (Note 4)	\$ 11,332,387	\$ 2,414,042
Investments (Note 4):		
U.S. government debt obligations	-	701,235
U.S. agencies debt obligations	15,347,739	1,537,598
Corporate debt obligations	7,965,628	1,685,224
Foreign debt obligations	-	484,861
Municipal debt obligations	14,646,538	1,238,930
Corporate mortgage/asset-backed securities	-	128,568
Corporate equities	131,048,724	18,237,197
Interest in investment pools	2,782,762	-
Limited partnerships	416,065	-
Mutual funds	9,515,164	-
Receivables - Interest and dividends	541,594	65,863
Total assets	193,596,601	26,493,518
Liabilities		
Accounts payable	879,936	173,803
Securities lending collateral payable	2,952,839	-
Total liabilities	3,832,775	173,803
Net Position - Held in trust for retiree benefits	\$ 189,763,826	\$ 26,319,715

Road Commission for Oakland County

Fiduciary Funds

Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2014 (Notes 1 and 4)

	Retirement System	Retiree Health Care Trust
Additions		
Investment income:		
Interest and dividends	\$ 5,289,102	\$ 671,155
Net increase in fair value of investments	5,317,784	974,836
Less investment expenses	(1,384,704)	(183,702)
Net investment income	9,222,182	1,462,289
Securities lending income	68,663	-
Contributions:		
Employer	4,550,666	6,372,521
Employee	69,290	-
Total contributions	4,619,956	6,372,521
Total additions	13,910,801	7,834,810
Deductions - Benefit payments	13,864,197	6,372,521
Net Increase	46,604	1,462,289
Net Position Held in Trust for Pension and Retiree Healthcare Benefits - Beginning of year	189,717,222	24,857,426
Net Position Held in Trust for Pension and Retiree Healthcare Benefits - End of year	\$ 189,763,826	\$ 26,319,715

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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, 2015 financial statements of the Road Commission include certain Retirement System and Retiree Health Care Trust financial data as previously reported at December 31, 2014, 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, 2015 revenue into the following program revenue categories:

Charges for services	\$ 18,445,056
Operating grants and contributions	65,173,330
Capital grants and contributions	<u>56,459,414</u>
Total revenue	<u>\$ 140,077,800</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

Notes to Financial Statements September 30, 2015

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 the purpose 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 the purpose 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

Notes to Financial Statements September 30, 2015

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, 2015 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, 2015

Note I - Summary of Significant Accounting Policies (Continued)

Depreciation charges in 2015 totaled \$43,243,849 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. The liability is expected to be liquidated by the Road Fund.

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 government-wide statements report deferred outflows from the difference between expected and actual investment earnings, contributions made after the measurement date of the net pension liability, and changes in assumptions in relation to the pension plan.

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 2015, 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

Notes to Financial Statements September 30, 2015

Note I - Summary of Significant Accounting Policies (Continued)

Pension - The Road Commission offers pension benefits to retirees. The Road Commission records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs - The Road Commission offers 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, 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. The Subdivision Improvement Fund will be used to liquidate the long-term debt.

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.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

- 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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted, during the Road Commission's 2015-2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Road Commission to recognize on the face of the financial statements the net OPEB liability related to its participation in the Retiree Health Care Trust. 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 the Road Commission's financial statements for the year ending September 30, 2018.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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:

Fund Balance Reported in Governmental Funds	\$ 58,944,132
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	796,366,135
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	3,879,450
Federal, state, local, and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	1,317,963
Notes payable are not due and payable in the current period and are not reported in the funds	(500,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(3,333)
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	(3,018,250)
Net OPEB obligations do not present a claim on current financial resources and are not reported as fund liabilities	(23,527,919)
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	(1,246,200)
Net pension liabilities and pension-related deferred outflows are not current financial resources and are not reported in the funds	<u>(9,304,546)</u>
Net Position of Governmental Activities	<u>\$ 822,907,432</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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 \$ 9,297,149

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	75,006,569
Depreciation expense	(43,243,849)
Net book value of assets disposed of	(3,879)

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 (1,491,893)

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 (1,002,023)

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

Change in accrued interest payable and other 3,334

Changes in accumulated sick and vacation pay, net other postemployment obligations, and estimated general liability and workers' compensation claims are recorded when earned in the statement of activities (6,562,652)

Change in net pension liability and related deferred outflows do not require the use of current financial resources (3,510,839)

Change in Net Position of Governmental Activities \$ 28,991,917

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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 \$4,134,332 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 \$41,741,034 invested in the Oakland County Investment Pool, which had an average maturity of investments of 1.33 years.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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	\$ 8,141,726	Aaa	Moody's
Oakland County Investment Pool	41,741,034	Not rated	N/A
Total	<u>\$ 49,882,760</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 \$41.7 million invested in the Oakland County Investment Pool and \$8.1 million invested in the Government Obligations Fund IS at Federated Bank at September 30, 2015. These investments represent approximately 75 percent and 14 percent, respectively, of total cash equivalents reported on the statement of net position/governmental funds balance sheet at September 30, 2015. 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, 2014)

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, 2015

Note 4 - Deposits and Investments (Continued)

At December 31, 2014, the System had approximately \$907,000 of bank deposits (certificates of deposit and 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, 2014, 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	\$ 15,347,739	\$ 1,741,144	\$ 5,557,380	\$ 4,598,990	\$ 3,450,225
Municipal debt obligations	14,646,538	65,400	1,410,856	2,471,449	10,698,833
Corporate bonds	7,965,628	425,957	4,691,254	1,741,116	1,107,301
Total	<u>\$ 37,959,905</u>	<u>\$ 2,232,501</u>	<u>\$ 11,659,490</u>	<u>\$ 8,811,555</u>	<u>\$ 15,256,359</u>

Credit Risk - As of December 31, 2014, 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, 2015

Note 4 - Deposits and Investments (Continued)

The credit ratings of these securities at December 31, 2014 are as follows:

<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
\$ 2,294,487	AAA	S&P
15,100,102	AA	S&P
7,395,194	A	S&P
<u>23,348,390</u>	Not rated	N/A
<u>\$ 48,138,173</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, 2014, 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, 2014. There were no losses to the System or the custodial bank during the year ended December 31, 2014 resulting from default of the borrowers. One of the instruments acquired by the securities lending program (comprising approximately 5.8 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, 2015

Note 4 - Deposits and Investments (Continued)

During the year ended December 31, 2014, 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 not rated 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, 2014 were \$2,782,762 and \$2,856,940, respectively.

Retiree Health Care Trust Deposits and Investments (As of December 31, 2014)

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 no 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, 2014, the average maturities of debt security investments are as follows:

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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	\$ 701,235	\$ -	\$ 589,090	\$ 112,145	\$ -
U.S. agency obligations	1,537,598	31,429	784,286	314,224	407,659
Corporate bonds	1,685,224	201,314	1,082,637	401,273	-
Foreign bonds	484,861	20,236	223,449	241,176	-
Corporate mortgage-/asset- backed securities	128,568	-	-	-	128,568
Municipal obligations	1,238,930	-	616,527	622,403	-
Total	<u>\$ 5,776,416</u>	<u>\$ 252,979</u>	<u>\$ 3,295,989</u>	<u>\$ 1,691,221</u>	<u>\$ 536,227</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, 2014, 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
\$ 24,346	AAA	S&P
1,291,984	AA+	S&P
643,694	AA	S&P
672,814	AA-	S&P
108,166	A+	S&P
418,842	A	S&P
802,001	A-	S&P
1,113,334	Not rated	N/A
<u>\$ 5,075,181</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, 2015

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance October 1, 2014	Reclassifications	Additions	Disposals	Balance September 30, 2015
Governmental Activities					
Capital assets not being depreciated:					
Land used for infrastructure	\$ 188,655,215	\$ -	\$ 5,562,069	\$ -	\$ 194,217,284
Land	1,887,459	-	-	-	1,887,459
Construction in progress	1,400,610	(1,218,979)	408,245	-	589,876
Subtotal	191,943,284	(1,218,979)	5,970,314	-	196,694,619
Capital assets being depreciated:					
Infrastructure	948,292,692	-	65,016,781	(17,525,419)	995,784,054
Buildings and storage bins	20,192,210	190,999	-	(2,913)	20,380,296
Road equipment	52,426,179	-	3,843,925	(2,256,557)	54,013,547
Other equipment	5,073,986	-	175,549	(3,140)	5,246,395
Brine walls and gravel pits	1,461,628	1,027,980	-	-	2,489,608
Subtotal	1,027,446,695	1,218,979	69,036,255	(19,788,029)	1,077,913,900
Accumulated depreciation:					
Infrastructure	389,763,992	-	40,254,833	(17,525,419)	412,493,406
Buildings and storage bins	11,549,785	-	577,621	-	12,127,406
Road equipment	47,286,461	-	2,298,919	(2,255,591)	47,329,789
Other equipment	4,790,925	-	93,074	(3,140)	4,880,859
Brine walls and gravel pits	1,391,522	-	19,402	-	1,410,924
Subtotal	454,782,685	-	43,243,849	(19,784,150)	478,242,384
Net capital assets being depreciated	572,664,010	1,218,979	25,792,406	(3,879)	599,671,516
Net capital assets	\$ 764,607,294	\$ -	\$ 31,762,720	\$ (3,879)	\$ 796,366,135

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, 2015:

	Interest Rate (Percent)	Maturing Through	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
2007 Michigan Transportation Fund revenue note	4.00	2016	\$ 1,000,000	\$ -	\$ (500,000)	\$ 500,000	\$ 500,000
Other long-term liabilities:							
Provision for uninsured losses			1,954,800	345,830	(1,054,430)	1,246,200	572,340
Employee compensated absences			2,811,150	207,100	-	3,018,250	-
Net other postemployment benefits			16,463,767	7,064,152	-	23,527,919	-
Net pension liability			9,168,707	17,358,455	-	26,527,162	-
Total long-term debt			\$ 31,398,424	\$ 24,975,537	\$ (1,554,430)	\$ 54,819,531	\$ 1,072,340

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 6 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$35,000, 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:

Year Ending September 30	Principal	Interest	Total
2016	\$ 500,000	\$ 20,000	\$ 520,000

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, 2015. 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, 2015. However, there is some possibility that the lawsuits will be settled for higher amounts than has been accrued. Currently, the range of possible losses for all such claims is estimated to be an additional \$20 million beyond what has been accrued. 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, 2015

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, 2015. 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, 2014 and 2015 are as follows:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Medical</u>	<u>Total</u>
Estimated liability - October 1, 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	1,154,800	1,700,000	-	2,854,800
Estimated claims incurred, including changes in estimates	345,830	(391,824)	11,570,806	11,524,812
Claim payments, including related legal and administrative expenses	<u>(354,430)</u>	<u>(308,176)</u>	<u>(11,570,806)</u>	<u>(12,233,412)</u>
Estimated liability - September 30, 2015	<u>\$ 1,146,200</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 2,146,200</u>
Estimated current portion - Included in accrued liabilities in the Road Fund	\$ 900,000	\$ -	\$ -	\$ 900,000
Estimated long-term portion	<u>246,200</u>	<u>1,000,000</u>	<u>-</u>	<u>1,246,200</u>
Total estimated liability	<u>\$ 1,146,200</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 2,146,200</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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	\$ 4,249,527	\$ -	\$ 4,249,527
Construction	10,960,879	-	10,960,879
Capital outlay and contracted services	6,799,429	-	6,799,429
Future years' capital acquisitions and maintenance projects	5,720,000	-	5,720,000
Future years' tri-party construction participation	6,500,000	-	6,500,000
Long-term portion of provision for:			
Postemployment benefits	2,652,336	-	2,652,336
Uninsured losses	2,131,000	-	2,131,000
Compensated absences	3,018,150	-	3,018,150
Special assessment construction	-	8,571,073	8,571,073
Total	<u>\$ 42,031,321</u>	<u>\$ 8,571,073</u>	<u>\$ 50,602,394</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 and life insurance 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, 2014, the date of the most recent actuarial valuation, membership consisted of 706 retirees and beneficiaries currently receiving benefits, 280 vested active employees, and 62 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, 2014. 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, 2015

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, 2014, 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, 2015, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014. 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	\$ 13,763,513
Interest on the prior year's net OPEB obligation	740,870
Less adjustment to the annual required contribution	<u>(911,960)</u>
Annual OPEB cost	13,592,423
Amounts contributed:	
Payments of current premiums	(6,028,271)
Advance funding contributions	<u>(500,000)</u>
Increase in net OPEB obligation	7,064,152
OPEB obligation - Beginning of year	<u>16,463,767</u>
OPEB obligation - End of year	<u><u>\$ 23,527,919</u></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
9/30/13	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
9/30/15	12/31/14	13,592,423	48.0	23,527,919

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

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
12/31/10	\$ 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
12/31/14	26,319,715	171,533,944	145,214,229	15.3	23,047,528	630.1

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, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return, projected salary increases of 3.25 percent to 6.75 percent, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 3.25 percent after 10 years. All rates included a 3.25 percent inflation assumption. The actuarial value of assets is the reported market value of assets. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2014 was 22 years.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan

Plan Description - The Road Commission for Oakland County Retirement System board of trustees administers the Road Commission for Oakland County Retirement System - a single-employer defined benefit pension plan that provides retirement, disability, and death benefits for all eligible general employees of the Retirement System. Benefit terms have been established by contractual agreements between the Retirement System and the various employee union representation or other actions of the Oakland County Board of Road Commissioners; amendments are subject to the same process.

Management of the Retirement System is vested in the board of trustees, which consists of five members - two elected by retirement system members, one appointed by the Road Commission for Oakland County board, and the Road Commission for Oakland County director of finance and director of human resources, who both serve as ex-officio members.

Employees Covered by Benefit Terms - At the December 31, 2014 measurement date, the following employees were covered by the benefit terms (based on census data as of December 31, 2013):

Inactive plan members or beneficiaries currently receiving benefits	575
Inactive plan members entitled to but not yet receiving benefits	52
Active plan members	<u>364</u>
Total employees covered by the plan	<u>991</u>

Benefits Provided - The Retirement System provides retirement, disability, and death benefits. Benefit terms are established by the Road Commission for Oakland County and may be amended by the Road Commission board through negotiation with employee groups.

Retirement benefits are calculated by multiplying the retirement system member's final average compensation (FAC) times the participant's year of services times the multiplier applicable to the participant's tier. FAC is the final average compensation consisting of the five highest years out of the last 10 years. The multipliers per participant tiers are as follows:

Tier 1 - Participants are eligible to retire if the participant has 25 or more years of service and a minimum age of 55 or has eight or more years of service and a minimum age of 60. The multiplier for this group is 2.25 percent. Maximum total benefit is 75 percent of earnings.

Tier 2 - Participants are eligible to retire if the participant has 10 or more years of service and a minimum age of 62. The multiplier for this group is 1.50 percent. Maximum total benefit is 75 percent of earnings.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

System participants are eligible for deferred (vested) retirement benefits if a tier 1 participant has eight or more years of service or a tier 2 participant has 10 or more years of service. The System does not have early retirement benefits. In addition to the normal and deferred retirement provisions, the Retirement System provides for nonduty disability, duty disability, and death in service.

In 2012, the Oakland County Board of Road Commissioners amended the plan document. Nonrepresented employees hired on or after March 1, 2012 are now subject to different age and years of service requirements in order to be eligible for pension benefits. These employees are also required to contribute a percentage of their pay to the Retirement System, and have the option of making additional voluntary contributions that are subject to an employer match. As a result of collective bargaining agreements, similar provisions are also applicable for all newly hired union employees beginning in either late 2013 or May 2014, depending on the bargaining unit.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Road Commission for Oakland County retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of retirement system members are established and may be amended by the board of commissioners in accordance with the board's agreements, union contracts, and plan provisions. With the exception of certain employees described above, retirement system members are not required to contribute to the Retirement System. Administrative costs of the Retirement System are financed by the Road Commission for Oakland County. For the year ended December 31, 2014, the average active member contribution rate was 0.3 percent of annual pay and the Retirement System's average contribution rate was 18.1 percent of annual payroll.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Retirement System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of December 31, 2014:

Asset Class	Target Allocation
Domestic equity	44 %
International equity	17
Domestic bonds	22
International bonds	6
Real estate	11

Rate of Return - For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.0 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with retirement board agreements, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the Retirement System maintains a record of the amount contributed by each employee. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

The balances of the reserve accounts at December 31, 2014 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 126,020,776	\$ 126,020,776
Employee reserve	99,248	99,248
Employer reserve	N/A	63,643,802

Net Pension Liability

The components of the net pension liability of the Road Commission at December 31, 2014 were as follows:

Total pension liability	\$ 216,290,988
Plan fiduciary net position	<u>(189,763,826)</u>
Road Commission's net pension liability	<u>\$ 26,527,162</u>

Plan fiduciary net position as a percentage of the total pension liability 87.7 %

The Road Commission has chosen to use December 31, 2014 as its measurement date for the net pension liability. The September 30, 2015 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2013	\$ 198,885,929	\$ 189,717,222	\$ 9,168,707
Service cost	3,155,013	-	3,155,013
Interest	14,514,850	-	14,514,850
Changes in assumptions	13,599,393	-	13,599,393
Contributions - Employer	-	4,550,666	(4,550,666)
Contributions - Member	-	69,290	(69,290)
Net investment income	-	9,222,182	(9,222,182)
Benefit payments, including refunds	(13,864,197)	(13,864,197)	-
Other	-	68,663	(68,663)
Net changes	<u>17,405,059</u>	<u>46,604</u>	<u>17,358,455</u>
Balance at December 31, 2014	<u>\$ 216,290,988</u>	<u>\$ 189,763,826</u>	<u>\$ 26,527,162</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

Assumption Changes - For calculation of the net pension liability as of December 31, 2014, the mortality table used was updated to the RP-2014 Healthy Annuitant Mortality Table, projected to 2020 using a static projection based on the two-dimensional MP-2014 improvement scales. For disabled retirements, a 10-year "set forward" was used on the table rates. Additionally, the wage inflation percentage was changed to 3.25 percent.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the Road Commission recognized pension expense of \$8,211,535. At September 30, 2015, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes in assumptions	\$ 10,024,557	\$ -
Net difference between projected and actual earnings on pension plan investments	3,673,029	-
Employer contributions to the plan subsequent to the measurement date	<u>3,525,030</u>	<u>-</u>
Total	<u>\$ 17,222,616</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$3,525,030), which will impact the net pension liability in fiscal year 2016, rather than pension expense.

Years Ending September 30	<u>Amount</u>
2016	\$ 4,493,094
2017	4,493,094
2018	3,793,141
2019	918,257

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%	
Salary increases	4.5 - 6.0%	Average, including inflation
Investment rate of return	7.5%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table, projected to 2020 using a static projection based on the two-dimensional MP-2014 improvement scales. For disabled retirements, a 10-year "set forward" was used on the table rates.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Road Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 11 - Defined Benefit Pension Plan (Continued)

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.50 %
International equity	8.50
Domestic bonds	2.50
International bonds	3.50
Real estate	4.50

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Road Commission, calculated using the discount rate of 7.5 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net pension liability of the Road Commission	\$ 48,532,660	\$ 26,527,162	\$ 7,546,765

Note 12 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at September 30, 2015, net of estimated revenue from federal aid and contributions from state and local participants, total approximately \$25,280,000. 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 \$6 million.

Note 13 - Change in Accounting

During the current year, the Road Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the government-wide statements now include a liability for our unfunded legacy costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to the pension note for further details. This change does not impact the Road Fund or the Subdivision Improvement Fund.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2015

Note 13 - Change in Accounting (Continued)

The financial statements for the year ended September 30, 2014 have been restated in order to adopt GASB Statement No. 68. The effect of this new accounting standard was a decrease in net position to record the net pension liability and deferred outflows at September 30, 2014.

As a result of implementing this statement, the beginning net position of the governmental activities has been restated as indicated.

	<u>Governmental Activities</u>
Net position - September 30, 2014 - As previously reported	\$ 801,955,292
Adjustment for implementation of GASB Statement No. 68	<u>(8,039,777)</u>
Net position - September 30, 2014 - As restated	<u>\$ 793,915,515</u>

Required Supplemental Information

Road Commission for Oakland County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 61,313,300	\$ 61,313,300	\$ 64,728,096	\$ 3,414,796
Other state sources	10,638,000	23,257,850	24,649,919	1,392,069
Federal sources	15,394,000	42,176,278	32,475,023	(9,701,255)
Revenue from county and local governments	8,679,673	18,725,717	15,582,372	(3,143,345)
Interest on investments	100,000	100,000	348,506	248,506
Fees and other revenue	1,912,327	1,912,327	1,972,995	60,668
Total revenue	98,037,300	147,485,472	139,756,911	(7,728,561)
Expenditures				
General administration:				
Board of County Road Commissioners	149,849	150,849	121,750	29,099
Managing director	665,159	770,159	712,504	57,655
Planning and development	1,272,679	1,402,803	1,159,606	243,197
Citizens' services	951,576	1,251,576	1,136,421	115,155
Finance department	985,308	1,062,088	979,427	82,661
Legal department	602,285	602,285	570,396	31,889
Human resources department	1,021,187	1,408,318	1,276,518	131,800
Total general administration	5,648,043	6,648,078	5,956,622	691,456
Central operations	9,901,508	10,247,950	9,157,680	1,090,270
Engineering department	4,515,190	4,754,490	4,470,538	283,952
Traffic department	9,559,081	11,778,263	9,402,790	2,375,473
Maintenance department	18,254,491	29,224,075	23,946,625	5,277,450
Nondepartmental	23,926,487	23,980,957	20,718,831	3,262,126
Debt service	500,500	500,500	-	500,500
Total expenditures before project expenditures	72,305,300	87,134,313	73,653,086	13,481,227
Project expenditures:				
Road improvement program and construction	25,155,000	70,225,644	54,654,167	15,571,477
Signals	3,325,000	5,185,076	3,412,781	1,772,295
Total project expenditures	28,480,000	75,410,720	58,066,948	17,343,772
Total expenditures	100,785,300	162,545,033	131,720,034	30,824,999
Net Change in Fund Balance	(2,748,000)	(15,059,561)	8,036,877	\$ 23,096,438
Fund Balance - October 1, 2014	42,336,182	42,336,182	42,336,182	
Fund Balance - September 30, 2015	\$ 39,588,182	\$ 27,276,621	\$ 50,373,059	

Road Commission for Oakland County

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios

	Calendar 2014 (measurement date)
Total Pension Liability	
Service cost	\$ 3,155,013
Interest	14,514,850
Changes in assumptions	13,599,393
Benefit payments, including refunds	<u>(13,864,197)</u>
Net Change in Total Pension Liability	17,405,059
Total Pension Liability - Beginning of year	<u>198,885,929</u>
Total Pension Liability - End of year	<u>\$ 216,290,988</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 4,550,666
Contributions - Member	69,290
Net investment income	9,222,182
Benefit payments, including refunds	(13,864,197)
Other	<u>68,663</u>
Net Change in Plan Fiduciary Net Position	46,604
Plan Fiduciary Net Position - Beginning of year	<u>189,717,222</u>
Plan Fiduciary Net Position - End of year	<u>\$ 189,763,826</u>
Road Commission's Net Pension Liability - Ending	<u>\$ 26,527,162</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.74 %
Covered Employee Payroll	\$ 23,992,497
Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll	110.6 %

Road Commission for Oakland County

Required Supplemental Information Schedule of Retirement System Investment Returns

	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	5.0 %

Road Commission for Oakland County

Required Supplemental Information Schedule of Retirement System Contributions Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 4,695,098	\$ 4,541,767	\$ 4,039,343	\$ 3,609,303	\$ 4,018,817	\$ 3,603,793	\$ 2,664,500	\$ 3,320,000	\$ 2,939,800	\$ 2,819,103
Contributions in relation to the actuarially determined contribution	4,721,207	4,500,000	4,500,000	4,500,000	3,885,303	4,500,000	2,864,200	3,320,000	2,939,800	2,819,103
Contribution Deficiency (Excess)	\$ (26,109)	\$ 41,767	\$ (460,657)	\$ (890,697)	\$ 133,514	\$ (896,207)	\$ (199,700)	\$ -	\$ -	\$ -
Covered Employee Payroll	\$24,377,458	\$23,929,227	\$23,746,871	\$22,901,670	\$25,761,648	\$25,631,529	\$28,264,638	\$27,791,451	\$29,293,470	\$28,582,921
Contributions as a Percentage of Covered Employee Payroll	19.4 %	18.8 %	18.9 %	19.6 %	15.1 %	17.6 %	10.1 %	11.9 %	10.0 %	9.9 %

Notes to Schedule of Retirement System Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution amounts are calculated as of December 31 each year, which is nine months prior to the beginning of the employer's fiscal year in which contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	24 years (closed)
Asset valuation method	Five-year smoothed market
Inflation	3.00 percent
Salary increases	4.50 percent - 6.00 percent, including inflation
Investment rate of return	7.5 percent - Net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Male 1971 Group Annuity Mortality Table, project to 1984 with ages set back one year
Other information	None

Road Commission for Oakland County

Required Supplemental Information Schedule of Funding Progress Other Postemployment Benefit Plan Year Ended September 30, 2015

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
12/31/10	\$ 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
12/31/14	26,319,715	171,533,944	145,214,229	15.3	23,047,528	630.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
9/30/13	12/31/12	\$ 8,947,413	71.9 %
9/30/14	12/31/12	9,010,782	83.1
9/30/15	12/31/14	13,592,423	48.0

Road Commission for Oakland County

Note to Required Supplemental Information Year Ended September 30, 2015

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, 2015 is approximately \$17,760,000. 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.

Other Supplemental Information

Road Commission for Oakland County

Other Supplemental Information Budgetary Comparison Schedule Subdivision Improvement Fund Year Ended September 30, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Special assessment revenue	\$ 3,175,000	\$ 3,175,000	\$ 1,827,575	\$ (1,347,425)
Interest	250,000	250,000	428,076	178,076
Total revenue	3,425,000	3,425,000	2,255,651	(1,169,349)
Expenditures				
Debt service	1,124,333	541,000	535,347	5,653
Project expenditures - Road improvement program and construction	4,800,000	2,800,000	460,032	2,339,968
Total expenditures	5,924,333	3,341,000	995,379	2,345,621
Excess of Revenue (Under) Over Expenditures	(2,499,333)	84,000	1,260,272	1,176,272
Other Financing Sources (Uses) - Proceeds from the issuance of bonds	5,000,000	(5,000,000)	-	5,000,000
Change in Fund Balance	2,500,667	(4,916,000)	1,260,272	\$ 6,176,272
Fund Balance - October 1, 2014	7,310,801	7,310,801	7,310,801	
Fund Balance - September 30, 2015	\$ 9,811,468	\$ 2,394,801	\$ 8,571,073	