
Road Commission for Oakland County

**Financial Report
with Supplemental Information
September 30, 2019**

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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 aggregate remaining funds of the Road Commission for Oakland County (the "Road Commission"), a component unit of Oakland County, Michigan, as of and for the year ended September 30, 2019 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining funds of the Road Commission for Oakland County as of September 30, 2019 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.

To the Board of Road Commissioners
Road Commission for Oakland County

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, 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 an opinion on the financial statements that collectively comprise 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020 on our consideration of 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 Road Commission for Oakland County's internal control over financial reporting and compliance.



January 31, 2020

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 year ended September 30, 2019. 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 fiduciary 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, 2019 and 2018 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 deferred outflows of resources and liabilities and deferred inflows of resources) 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.

The Road Commission's Net Position

	2019	2018
Assets		
Current and other assets	\$ 124,048,370	\$ 108,470,217
Capital assets	915,734,290	872,659,424
Total assets	1,039,782,660	981,129,641
Deferred Outflows of Resources	27,616,063	14,627,972
Liabilities		
Current liabilities	35,394,502	27,266,146
Noncurrent liabilities	183,055,350	162,806,283
Total liabilities	218,449,852	190,072,429
Deferred Inflows of Resources	4,302,364	6,180,717
Net Position		
Net investment in capital assets	915,734,290	872,659,424
Unrestricted	(71,087,783)	(73,154,957)
Total net position	\$ 844,646,507	\$ 799,504,467

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The Road Commission's net position increased approximately 5.6 percent, from \$799,504,467 to \$844,646,507 for the year ended September 30, 2019. The increase was primarily due to the increased investment in capital assets. The net investment in capital assets increased by \$43,074,866 and \$36,793,782 for the years ended September 30, 2019 and 2018, respectively.

The Road Commission's Changes in Net Position

	2019	2018
Revenue		
Intergovernmental:		
Federal sources	\$ 17,553,028	\$ 26,443,960
State-shared revenue and grants:		
State aid - Act 51	103,292,969	94,951,972
Other state sources	35,818,720	30,080,100
Revenue from county and local governments	19,475,235	13,062,855
Other revenue	8,118,395	4,324,359
	<u>184,258,347</u>	<u>168,863,246</u>
Total revenue	184,258,347	168,863,246
Expenditures		
Departmental operations and maintenance	48,112,159	45,832,427
Nondepartmental	28,715,524	25,195,210
General administration	7,461,030	6,777,613
Depreciation expense	55,792,594	51,556,891
(Gain) loss on sale of capital assets	(965,000)	1,053,475
	<u>139,116,307</u>	<u>130,415,616</u>
Total expenditures	139,116,307	130,415,616
	<u>\$ 45,142,040</u>	<u>\$ 38,447,630</u>

The Road Commission's revenue for the year ended September 30, 2019 increased 9 percent from the prior year total. Revenue from county and local governments increased 49.1 percent, revenue from state aid increased 11.3 percent, and revenue from federal sources decreased 33.6 percent. The majority of the increases are attributable to increased construction activity. Expenditures for depreciation road improvements and construction also increased from the preceding year. Road construction activity for the current year increased 0.4 percent, and depreciation expense for the current year increased 8.2 percent from that of the preceding year. Total full accrual expenses for the fiscal year ended September 30, 2019 were 6.7 percent more than the preceding year's total.

Financial Analysis of Individual Funds

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, 2019, the fund balance of the Road Fund increased by \$6,095,525. Total revenue was \$179,929,480, and total expenditures were \$174,798,955, which represented an increase in revenue from the prior year of 6.3 percent and an increase in expenditures from the prior year of 6.3 percent. The increase in state aid revenue was due principally to increases in state aid related to the increased gas tax. 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's 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, 2019 was \$36,979,317 higher than the original budget, primarily due to the budget adjustments to reflect more participation from federal, state, 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, 2019 was lower than the amended budget by \$12,300,167.

The amended Road Fund expenditure budget for the year ended September 30, 2019 was \$74,773,182 higher than the original budget, primarily due 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 the goods were not received or services were not performed until the subsequent year. The actual expenditures recognized during the year ended September 30, 2019 were less than the amended budget by \$55,224,557 due principally to this type of expenditure timing difference.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2019 and 2018, the Road Commission had invested \$915,734,290 and \$872,659,424, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$43,074,866, or 4.9 percent. The Road Commission added \$98,867,460 to its investment in capital assets during the current year, including \$90,299,617 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 the Road Commission's revenue.

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

	<u>2019</u>	<u>2018</u>
Buildings, storage bins, and related - Including land and construction in progress	\$ 1,653,544	\$ 897,233
Road equipment	6,840,461	7,931,384
Other equipment	73,838	267,035
Infrastructure - Including land	<u>90,299,617</u>	<u>81,024,784</u>
Total additions	<u><u>\$ 98,867,460</u></u>	<u><u>\$ 90,120,436</u></u>

Debt Administration

At September 30, 2019 and 2018, the Road Commission's debt included only other long-term obligations.

Other long-term obligations include accrued vacation pay and sick leave, net OPEB liability, net pension liability, and reserves for various losses. More detailed information about the Road Commission's long-term liabilities is presented in the notes to the financial statements.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

In November 2015, the State of Michigan enacted nine bills into law, which are intended to raise an additional \$1.2 billion of future annual revenue for transportation purposes. While the Road Commission is grateful for this increase, there are concerns. The increase began in 2017 and will reach full implementation in 2021; these bills include vehicle registration fees and fuel tax revenue increases, as well as an annual legislatively approved transfer from Michigan's General Fund to the Michigan Transportation Fund (MTF). The transfers from the General Fund will phase in beginning in 2019 at \$150 million and will reach a maximum annual amount of \$600 million per year in 2021. 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 the future political considerations could impact the availability and transfer of those future funds.

The annual legislation required each year for the transfer from the General Fund to the MTF fund is a major concern for the Road Commission. This transfer is a significant portion of the revenue package.

Beginning in January 2017, the vehicle registration fees and fuel tax revenue increases went into effect. For comparison, the State saw increases of 54.1 percent between fiscal year 2016 and fiscal year 2019 and 8.8 percent revenue increase over the prior year. The State saw motor fuel tax revenue increases of 36.7 percent between fiscal year 2016 and fiscal year 2019 and 0.5 percent revenue decreases over the prior year for motor fuel taxes. The State saw diesel fuel tax revenue increases of 83.4 percent between fiscal year 2016 and fiscal year 2019 and 1.1 percent revenue increases over the prior year. The increase from the prior 10 years for the Road Commission was 79.5 percent. Although this increase appears significant, decades of underfunding has left roads in need of billions of dollars of repair. The current increase will merely allow the Road Commission to stabilize the system at its current condition. The legislative increases to fuel taxes and registration fees are forecasted to result in an increase of MTF revenue to the Road Commission of approximately \$20 million each year. The increase in revenue will help the Road Commission begin to replace its aging fleet, provide a small increase in staffing for maintenance of our roads, and invest in road improvements, capital road projects, and traffic signal systems. Due to the uncertainty at this time, the Road Commission only included the General Fund transfer at the \$150 million level for budgeting purposes. The Road Commission will be prepared with a thorough plan if additional funding becomes available.

Requests for Further Information

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 questions about this report or need additional information, please contact the Road Commission for Oakland County's administrative offices at 31001 Lahser Road, Beverly Hills, MI 48025.

Road Commission for Oakland County

Statement of Net Position/Governmental Funds Balance Sheet

September 30, 2019

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Position
Assets					
Cash and cash equivalents (Note 3)	\$ 75,725,585	\$ 8,948,133	\$ 84,673,718	\$ -	\$ 84,673,718
Receivables:					
Accounts	25,350,463	-	25,350,463	-	25,350,463
Special assessments	-	5,683,513	5,683,513	-	5,683,513
Internal receivables	701,320	(701,320)	-	-	-
Inventory	4,395,141	-	4,395,141	-	4,395,141
Deposits, prepaid expenses, and other assets	3,945,535	-	3,945,535	-	3,945,535
Capital assets: (Note 4)					
Assets not subject to depreciation	-	-	-	229,770,053	229,770,053
Assets subject to depreciation - Net	-	-	-	685,964,237	685,964,237
Total assets	110,118,044	13,930,326	124,048,370	915,734,290	1,039,782,660
Deferred Outflows of Resources					
Deferred pension costs (Note 9)	-	-	-	20,870,120	20,870,120
Deferred OPEB costs (Note 8)	-	-	-	6,745,943	6,745,943
Total deferred outflows of resources	-	-	-	27,616,063	27,616,063
Total assets and deferred outflows of resources	\$ 110,118,044	\$ 13,930,326	\$ 124,048,370	943,350,353	1,067,398,723
Liabilities					
Accounts payable	\$ 17,364,533	\$ 57,477	\$ 17,422,010	-	17,422,010
Advances and unearned revenue	14,342,957	617,905	14,960,862	-	14,960,862
Deposits	1,008,888	-	1,008,888	-	1,008,888
Accrued liabilities and other	2,002,742	-	2,002,742	-	2,002,742
Noncurrent liabilities:					
Due within one year - Provision for uninsured claims (Note 6)	-	-	-	679,773	679,773
Due in more than one year:					
Compensated absences	-	-	-	2,645,605	2,645,605
Provision for uninsured losses (Note 6)	-	-	-	794,446	794,446
Net OPEB liability (Note 8)	-	-	-	124,658,295	124,658,295
Net pension liability (Note 9)	-	-	-	54,277,231	54,277,231
Total liabilities	34,719,120	675,382	35,394,502	183,055,350	218,449,852
Deferred Inflows of Resources					
Unavailable revenue	2,682,783	4,138,712	6,821,495	(6,821,495)	-
Deferred pension cost reductions (Note 9)	-	-	-	3,147,790	3,147,790
Deferred OPEB cost reductions (Note 8)	-	-	-	1,154,574	1,154,574
Total deferred inflows of resources	2,682,783	4,138,712	6,821,495	(2,519,131)	4,302,364
Total liabilities and deferred inflows of resources	37,401,903	4,814,094	42,215,997	180,536,219	222,752,216
Equity					
Fund balances:					
Nonspendable:					
Inventory	4,395,141	-	4,395,141	(4,395,141)	-
Prepays	3,945,535	-	3,945,535	(3,945,535)	-
Assigned (Note 7)	64,375,465	9,116,232	73,491,697	(73,491,697)	-
Total fund balances	72,716,141	9,116,232	81,832,373	(81,832,373)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 110,118,044	\$ 13,930,326	\$ 124,048,370		
Net position:					
Net investment in capital assets				915,734,290	915,734,290
Unrestricted				(71,087,783)	(71,087,783)
Total net position				\$ 844,646,507	\$ 844,646,507

See notes to financial statements.

Road Commission for Oakland County

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balances

Year Ended September 30, 2019

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
Intergovernmental:					
Federal sources	\$ 18,083,207	\$ -	\$ 18,083,207	\$ (530,179)	\$ 17,553,028
State-shared revenue and grants:					
State aid - Act 51	103,292,969	-	103,292,969	-	103,292,969
Other state sources	35,660,549	-	35,660,549	158,171	35,818,720
Revenue from county and local governments	18,355,106	-	18,355,106	1,120,129	19,475,235
Special assessment revenue	-	1,779,170	1,779,170	687,075	2,466,245
Interest	1,501,619	458,871	1,960,490	-	1,960,490
Fees and other revenue	3,036,030	-	3,036,030	655,630	3,691,660
Total revenue	179,929,480	2,238,041	182,167,521	2,090,826	184,258,347
Expenditures					
Central operations	10,828,417	-	10,828,417	(3,447,559)	7,380,858
Engineering department	4,898,661	-	4,898,661	(4,305,983)	592,678
Traffic department	11,191,584	-	11,191,584	(2,898,754)	8,292,830
Maintenance department	50,320,147	-	50,320,147	(19,880,561)	30,439,586
Nondepartmental	25,778,906	-	25,778,906	2,936,618	28,715,524
General administration	7,930,173	-	7,930,173	(469,143)	7,461,030
Project expenditures:					
Road improvement program and construction	61,720,055	2,443,599	64,163,654	(62,757,447)	1,406,207
Signals	2,131,012	-	2,131,012	(2,131,012)	-
Depreciation expense	-	-	-	55,792,594	55,792,594
Total expenditures	174,798,955	2,443,599	177,242,554	(37,161,247)	140,081,307
Other Financing Sources - Sale of capital assets	965,000	-	965,000	-	965,000
Net Change in Fund Balances/Net Position	6,095,525	(205,558)	5,889,967	39,252,073	45,142,040
Fund Balances/Net Position - Beginning of year	66,620,616	9,321,790	75,942,406	723,562,061	799,504,467
Fund Balances/Net Position - End of year	\$ 72,716,141	\$ 9,116,232	\$ 81,832,373	\$ 762,814,134	\$ 844,646,507

Road Commission for Oakland County

Fiduciary Funds Statement of Fiduciary Net Position

December 31, 2018 (Note 1)

	Retirement System	Retiree Health Care Trust
Assets		
Cash and cash equivalents (Note 3)	\$ 4,066,283	\$ 2,080,729
Investments: (Note 3)		
U.S. government debt obligations	-	3,536,907
U.S. agencies debt obligations	4,785,303	4,147,778
Corporate debt obligations	3,088,009	2,358,576
Municipal debt obligations	23,286,406	-
Corporate equities	115,275,774	22,773,011
Interest in investment pools	2,271,875	-
Limited partnerships	18,000,406	4,073,961
Mutual funds	10,413,635	2,735,082
Receivables - Interest and dividends	629,324	573,201
Total assets	181,817,015	42,279,245
Liabilities		
Accounts payable	695,826	2,142,370
Securities lending collateral payable	2,271,875	-
Total liabilities	2,967,701	2,142,370
Net Position - Restricted for pension and OPEB	\$ 178,849,314	\$ 40,136,875

Road Commission for Oakland County

Fiduciary Funds Statement of Revenue, Expenses, and Changes in Fiduciary Net Position

Year Ended December 31, 2018 (Note 1)

	Retirement System	Retiree Health Care Trust
Additions		
Investment income (loss):		
Interest and dividends	\$ 5,404,214	\$ 1,122,969
Net decrease in fair value of investments	(14,555,022)	(2,460,520)
Investment-related expenses	(788,925)	(30,835)
Net investment loss	(9,939,733)	(1,368,386)
Securities lending income	1,638	-
Contributions:		
Employer	5,500,008	12,321,830
Employee	521,280	-
Total contributions	6,021,288	12,321,830
Total additions	(3,916,807)	10,953,444
Deductions - Benefit payments	14,966,784	7,146,848
Net (Decrease) Increase	(18,883,591)	3,806,596
Net Position Restricted for Pension and OPEB - Beginning of year	197,732,905	36,330,279
Net Position Restricted for Pension and OPEB - End of year	\$ 178,849,314	\$ 40,136,875

September 30, 2019

Note 1 - Significant Accounting Policies

Reporting Entity

The Road Commission for Oakland County (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, 2019 financial statements of the Road Commission include certain Retirement System and Retiree Health Care Trust financial data, as previously reported at December 31, 2018, the latest available financial statements of the Retirement System and the Retiree Health Care Trust.

Accounting and Reporting Principles

The Road Commission follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the Road Commission:

Report Presentation

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.

Basis of Accounting

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 a purpose for which both restricted and unrestricted net position or fund balance are available, the Road Commission's policy is to first apply restricted resources. When an expense is incurred for a 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.

September 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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.

Fund Accounting

Governmental Funds

The Road Commission reports the following funds as "major" governmental funds:

- 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.
- 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.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the Road Commission's programs. Activities that are reported as fiduciary include the following:

- 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.
- 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.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated 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, 2019 are recorded net of approximately \$95,600 of allowances.

Inventories 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 items in both government-wide and fund financial statements.

Note 1 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column 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 acquisition value at the date of donation.

Depreciation charges in 2019 totaled \$55,792,594 based on the following methods and useful lives:

Asset Class	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
Infrastructure - Other	Straight line	10-50

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position 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 future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements report deferred outflows related to pension and OPEB, as detailed in Notes 8 and 9.

In addition to liabilities, the statement of net position 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. During fiscal year 2019, the Road Commission had deferred inflows of resources related to pension and OPEB, as detailed in Notes 8 and 9, along with grant reimbursement funding and special assessment receivables that were not received within the 60-day period of availability.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Road Commission itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned 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 County Road Commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body or director of finance, who is authorized by resolution approved by the board to make assignments.

Note 1 - Significant Accounting Policies (Continued)

Pension

The Road Commission offers a defined benefit pension plan to its employees. 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 Benefits

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

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. As of September 30, 2019, there were \$2,645,605 of accrued compensated absences. The liability increased \$59,807 from the September 30, 2018 balance of \$2,585,798. The liability is expected to be liquidated by the Road Fund.

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.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

Note 1 - Significant Accounting Policies (Continued)

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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, 2021.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Net position reported in the statement of net position column is different than the fund balances 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 Balances Reported in Governmental Funds	\$ 81,832,373
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	915,734,290
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	4,138,712
Federal, state, local, and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	2,682,783
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(2,645,605)
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	(1,474,219)
Net pension liabilities and pension-related deferred outflows and inflows are not current financial resources and are not reported in the funds	(36,554,901)
Net OPEB liabilities and OPEB-related deferred outflows and inflows are not current financial resources and are not reported in the funds	<u>(119,066,926)</u>
Net Position of Governmental Activities	<u><u>\$ 844,646,507</u></u>

September 30, 2019

**Note 2 - 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 balances reported in the individual fund columns because of the different measurements focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances Reported in Governmental Funds	\$ 5,889,967
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	98,867,460
Depreciation expense	(55,792,594)
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	687,075
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	872,755
Changes in accumulated sick and vacation pay, estimated general liability claims, and workers' compensation claims are recorded when earned in the statement of activities	(558,891)
Change in net pension liability and related deferred outflows and inflows do not require the use of current financial resources	(5,658,608)
Change in net OPEB liability and related deferred outflows and inflows do not require the use of current financial resources	834,876
Change in Net Position of Governmental Activities	\$ 45,142,040

Note 3 - 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 certificates of deposit (CDs), but not the remainder of state statutory authority, as listed above. The Road Commission's deposits and investments are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

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 \$19,677,345 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 \$65,481,965 invested in the Oakland County Local Government Investment Pool, which had an average maturity of investments of 0.99 years.

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. As of September 30, 2019, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Government Obligations Fund IS	\$ 8,927,992	Aaa	Moody's
Oakland County Local Government Investment Pool	65,481,965	Not rated	N/A
Total	<u>\$ 74,409,957</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 \$65.5 million invested in the Oakland County Investment Pool and \$9 million invested in the Government Obligations Fund IS at Federated Bank at September 30, 2019. These investments represent approximately 77 and 11 percent, respectively, of total cash and cash equivalents reported on the statement of net position/governmental funds balance sheet at September 30, 2019. The Oakland County Local Government Investment Pool (LGIP) is not registered with the SEC and does not issue a separate report. The fair value position in the pool is not the same as the value of the pool shares, since the pool does not meet the requirements under GASB Statement No. 79 to report its value for financial reporting purposes at amortized cost.

Retirement System Deposits and Investments (as of December 31, 2018)

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.

Note 3 - Deposits and Investments (Continued)

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.

At December 31, 2018, the System had \$1,002,672 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, 2018, 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 debt obligations	\$ 4,785,303	468,072	\$ 3,339,479	\$ 241,335	\$ 736,417
Municipal debt obligations	23,286,406	1,228,776	2,493,208	2,827,335	16,737,087
Corporate debt obligations	3,088,009	202,161	1,595,579	1,049,150	241,119
Total	\$ 31,159,718	1,899,009	\$ 7,428,266	\$ 4,117,820	\$ 17,714,623

Credit Risk

As of December 31, 2018, the System's debt securities, other than the U.S. government and agency obligations, were composed substantially of state and local municipal bonds, corporate bonds, and collateralized mortgage obligations.

The System's investment policy provides that the fixed-income investment portfolio may be invested in quality fixed-income instruments with a Moody's Investors Service (Moody's) rating of Baa 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.

Note 3 - Deposits and Investments (Continued)

The credit ratings of these securities at December 31, 2018 are as follows:

	Fair Value	Rating	Rating Organization
\$	7,438,712	Aaa	Moody's
	2,719,353	Aa1	Moody's
	4,130,779	Aa2	Moody's
	4,965,973	Aa3	Moody's
	2,089,516	A1	Moody's
	3,293,588	A2	Moody's
	1,747,961	A3	Moody's
	563,459	Baa1	Moody's
	4,210,377	Not rated	
	<u>31,159,718</u>		

Securities Lending

As permitted by some state statutes and under the provisions of a Securities Lending Authorization Agreement, the Retirement System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Retirement System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2018, only United States currency was received as collateral.

The Retirement System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. During the year, one of the instruments acquired by the securities and lending program was written off due to defaulting in the previous years. Prior to write-off, the market value was zero.

The Retirement System and the borrower maintain 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 an investment pool. On December 31, 2018, the Retirement System had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loans for the Retirement System as of December 31, 2018 were \$2,271,875 and \$2,217,360, respectively.

Retiree Health Care Trust Deposits and Investments (as of December 31, 2018)

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

Note 3 - Deposits and Investments (Continued)

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 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, 2018, the average maturities of debt security investments are as follows:

Investment Type	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
U.S. government obligations	\$ 3,536,907	\$ 623,250	\$ -	\$ 2,913,657	\$ -
U.S. agency debt obligations	4,147,778	1,079,884	2,489,930	296,428	281,536
Corporate bonds	2,358,576	112,072	1,837,369	409,135	-
Total	<u>\$ 10,043,261</u>	<u>\$ 1,815,206</u>	<u>\$ 4,327,299</u>	<u>\$ 3,619,220</u>	<u>\$ 281,536</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, 2018, the Trust held U.S. government debt obligations, U.S. agency obligations, corporate bonds, and mutual funds subject to credit risk. The credit ratings of these securities are as follows:

Fair Value	Rating	Rating Organization
\$ 6,447,696	Aaa	Moody's
896,359	A1	Moody's
1,133,876	A2	Moody's
216,269	A3	Moody's
4,084,143	Not rated	
<u>\$ 12,778,343</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 on the statement of net position.

Note 3 - Deposits and Investments (Continued)

Fair Value Measurements

The Road Commission, including the Retirement System and Retiree Health Care Trust, categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Road Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Road Commission has the following recurring fair value measurements as of September 30, 2019 (with the exception of the Retirement System and Retiree Health Care Trust, which are valued at December 31, 2018):

	Fair Value Measurement Using			Balance at September 30, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Retirement System:				
U.S. agencies debt obligations	\$ -	\$ 4,785,303	\$ -	\$ 4,785,303
Corporate debt obligations	-	3,088,009	-	3,088,009
Municipal debt obligations	-	23,286,406	-	23,286,406
Mutual funds - Fixed income	10,413,635	-	-	10,413,635
Corporate equities	115,275,774	-	-	115,275,774
Total Retirement System	125,689,409	31,159,718	-	156,849,127
Retiree Health Care Trust:				
U.S. government debt obligations	-	3,536,907	-	3,536,907
U.S. agency obligations	-	4,147,778	-	4,147,778
Corporate debt obligations	-	2,358,576	-	2,358,576
Mutual funds - Fixed income	2,735,082	-	-	2,735,082
Corporate equities	22,773,011	-	-	22,773,011
Total Retiree Health Care Trust	25,508,093	10,043,261	-	35,551,354
Total investments by fair value level	\$ 151,197,502	\$ 41,202,979	\$ -	192,400,481
Investments measured at NAV:				
Oakland County Local Government Investment Pool (held by Road Commission)				65,481,965
Limited partnerships - Real estate funds (held by Retirement System and Retiree Health Care Trust)				22,074,367
Total investments measured at NAV				87,556,332
Total fair value measurements				\$ 279,956,813

Note 3 - Deposits and Investments (Continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. The fair value of the other assets shown above was determined primarily based on Level 2 inputs. The Road Commission estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the table below.

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission holds shares or interests in investment pools whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pools as a practical expedient.

At September 30, 2019, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County Local Government Investment Pool	\$ 65,481,965	\$ -	No restrictions	None
Limited partnerships - Real estate funds	<u>22,074,367</u>	<u>-</u>	No restrictions	None
Total investments measured at NAV	<u>\$ 87,556,332</u>	<u>\$ -</u>		

The Oakland County Local Government Investment Pool (LGIP) invests assets in a manner that will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participation.

The real estate funds class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using net asset value of the System's and the Trust's ownership interest in partners' capital.

September 30, 2019

Note 4 - Capital Assets

Capital asset activity of the Road Commission's governmental activities was as follows:

Governmental Activities

	Balance October 1, 2018	Reclassifications	Additions	Disposals	Balance September 30, 2019
Capital assets not being depreciated:					
Land used for infrastructure	\$ 216,910,355	\$ -	\$ 8,615,214	\$ -	\$ 225,525,569
Land	1,945,369	322,825	14,650	-	2,282,844
Construction in progress	851,129	(364,073)	1,474,584	-	1,961,640
Subtotal	219,706,853	(41,248)	10,104,448	-	229,770,053
Capital assets being depreciated:					
Infrastructure	1,115,083,615	-	81,684,403	(32,662,798)	1,164,105,220
Buildings and storage bins	22,459,384	41,248	164,310	-	22,664,942
Road equipment	63,383,598	-	6,840,461	(380,923)	69,843,136
Other equipment	6,401,585	-	73,838	-	6,475,423
Brine walls and gravel pits	2,489,608	-	-	-	2,489,608
Subtotal	1,209,817,790	41,248	88,763,012	(33,043,721)	1,265,578,329
Accumulated depreciation:					
Infrastructure	484,284,384	-	49,212,709	(32,662,798)	500,834,295
Buildings and storage bins	13,628,556	-	358,488	-	13,987,044
Road equipment	51,898,801	-	5,904,017	(380,923)	57,421,895
Other equipment	5,305,260	-	207,322	-	5,512,582
Brine walls and gravel pits	1,748,218	-	110,058	-	1,858,276
Subtotal	556,865,219	-	55,792,594	(33,043,721)	579,614,092
Net capital assets being depreciated	652,952,571	41,248	32,970,418	-	685,964,237
Net capital assets	\$ 872,659,424	\$ -	\$ 43,074,866	\$ -	\$ 915,734,290

Note 5 - 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 6). 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, 2019. 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, 2019. However, there is some possibility that the lawsuits will be settled at higher amounts than those that have been accrued. The government-wide statements include both the current and long-term portions of the estimated liability.

September 30, 2019

Note 6 - 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 has recorded the estimated liability at September 30, 2019. 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, 2019 and 2018 are as follows:

	General Liability	Workers' Compensation	Medical	Total
Estimated liability - October 1, 2017	\$ 1,161,500	\$ 565,980	\$ -	\$ 1,727,480
Estimated claims incurred, including changes in estimates	402,515	638,360	12,759,192	13,800,067
Claim payments, including related legal and administrative expenses	(412,515)	(480,705)	(12,759,192)	(13,652,412)
Estimated liability - September 30, 2018	1,151,500	723,635	-	1,875,135
Estimated claims incurred, including changes in estimates	321,947	1,098,199	12,240,679	13,660,825
Claim payments, including related legal and administrative expenses	(275,266)	(645,796)	(12,240,679)	(13,161,741)
Estimated liability - September 30, 2019	<u>\$ 1,198,181</u>	<u>\$ 1,176,038</u>	<u>\$ -</u>	<u>\$ 2,374,219</u>
Estimated current portion - Included in accrued liabilities in the Road Fund	\$ 900,000	\$ -	\$ -	\$ 900,000
Estimated noncurrent portion	298,181	1,176,038	-	1,474,219
Total	<u>\$ 1,198,181</u>	<u>\$ 1,176,038</u>	<u>\$ -</u>	<u>\$ 2,374,219</u>

Note 7 - Fund Balance Constraints

The detail of the various components of the Road Commission's assigned fund balance are as follows:

	Road Fund	Subdivision Improvement Fund	Total
Construction	\$ 12,706,468	\$ 9,116,232	\$ 21,822,700
Capital outlay and contracted services	30,463,699	-	30,463,699
Building fund	7,370,175	-	7,370,175
Future years' triparty construction participation	6,000,000	-	6,000,000
Long-term portion of provision for postemployment benefits	4,484,480	-	4,484,480
Long-term portion of provision for uninsured losses	705,038	-	705,038
Long-term portion of provision for compensated absences	2,645,605	-	2,645,605
Total	<u>\$ 64,375,465</u>	<u>\$ 9,116,232</u>	<u>\$ 73,491,697</u>

Note 8 - Other Postemployment Benefit Plan

Plan Description

The Road Commission administers the Retiree Health Care Trust, a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for employees who meet the eligibility requirements. The Trust provides for future payments of medical benefits.

The financial statements of the OPEB plan are included in these financial statements as a retiree healthcare trust fund (a fiduciary fund).

Management of the Trust is vested with the board of trustees, which consists of six members - two elected by trust members, one elected by the trust retirees, 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.

In 2012, the Road Commission for Oakland County created the Road Commission for Oakland County Retiree Health Savings Plan for Nonrepresented Employees (the "Plan"). The Plan was established to reimburse eligible retirees of the Road Commission for medical and dental expenses incurred by the retirees, their spouses, and dependents. All nonrepresented employees hired by the Road Commission on or after March 1, 2012 will be required to participate in the Plan. 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. The Road Commission will contribute a flat amount per pay period for each eligible employee.

Benefits Provided

The Trust provides healthcare and vision benefits for retirees, spouses and their dependents. Benefits are provided through a third-party insurer, and the full or partial cost of benefits is covered by the Trust. Benefit terms are established by the Road Commission for Oakland County and may be amended by the Road Commission for Oakland County board through negotiation with employee groups.

Employees Covered by Benefit Terms

At December 31, 2016, the date of the most recent actuarial valuation, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	417
Active plan members	308
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Total plan members	725
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Contributions

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, and it plans to continue to do so until the Trust is deemed to be adequately funded, as determined by the Board of County Road Commissioners and the board of trustees. Benefits paid by the Road Fund are reflected in the Trust’s financial statements as an employer contribution and an offsetting benefit payment. In addition, the Road Commission intends to set aside funding in the Trust from time to time as it deems appropriate.

Retiree healthcare costs are paid by the Road Commission on a "pay-as-you-go" basis. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended September 30, 2019, the Road Commission made payments for postemployment health benefit premiums of \$9,447,201.

Note 8 - Other Postemployment Benefit Plan (Continued)

Net OPEB Liability

The Road Commission has chosen to use December 31, 2018 as its measurement date for the net OPEB liability. The September 30, 2019 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2018 measurement date. The December 31, 2018 total OPEB liability was determined by an actuarial valuation performed as of December 31, 2016, which used updated procedures to roll forward the estimated liability to December 31, 2018.

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at January 1, 2018	\$ 161,974,020	\$ 36,330,279	\$ 125,643,741
Changes for the year:			
Service cost	1,573,510	-	1,573,510
Interest	9,551,241	-	9,551,241
Differences between expected and actual experience	(1,156,753)	-	(1,156,753)
Contributions - Employer	-	12,321,830	(12,321,830)
Net investment income	-	(1,368,386)	1,368,386
Benefit payments, including refunds	(7,146,848)	(7,146,848)	-
Net changes	2,821,150	3,806,596	(985,446)
Balance at December 31, 2018	<u>\$ 164,795,170</u>	<u>\$ 40,136,875</u>	<u>\$ 124,658,295</u>

The plan's fiduciary net position represents 24.4 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the Road Commission recognized OPEB expense of \$8,612,325. At September 30, 2019, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,154,574
Net difference between projected and actual earnings on OPEB plan investments	1,614,791	-
Employer contributions to the plan subsequent to the measurement date	5,131,152	-
Total	<u>\$ 6,745,943</u>	<u>\$ 1,154,574</u>

Note 8 - Other Postemployment Benefit Plan (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending September 30	Amount
2020	\$ (177,360)
2021	(146,981)
2022	43,868
2023	740,690
Total	<u>\$ 460,217</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, which used updated procedures to roll forward the estimated liability to December 31, 2018. The valuation was determined using an inflation assumption of 2.5 percent; assumed salary increases (including inflation) of 4.5 percent; an investment rate of return (net of investment expenses) of 6 percent; a healthcare cost trend rate of 9 percent for 2018, graded down to an ultimate rate of 3 percent for 2027 and later years; and using the RP-2014 Healthy Annuitant Mortality Table, projected to 2020 using a static projection based on the two-dimensional MP-2014 improvement scales.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that the employer continues to contribute 100 percent of the annual benefit payments to the Trust each year.

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

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 adding expected inflation. Best estimates of arithmetic real rates of return as of the December 31, 2018 measurement date for each major asset class included in the OPEB plan’s target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.00 %
International equity	6.00
International bonds	1.00
Real estate	2.00
Alternative assets	3.00

September 30, 2019

Note 8 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Road Commission, calculated using the discount rate of 6.00 percent, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percentage Point Increase (7.00%)
Net OPEB liability of the Trust	\$ 144,330,070	\$ 124,658,295	\$ 108,196,440

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Road Commission, calculated using the healthcare cost trend rate of 9.00 percent, as well as what the Road Commission's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (8.00%)	Current Healthcare Cost Trend Rate (9.00%)	1 Percentage Point Increase (10.00%)
Net OPEB liability of the Trust	\$ 104,891,252	\$ 124,658,295	\$ 147,880,833

Investment Policy

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the OPEB board by a majority vote of its members. It is the policy of the OPEB 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 OPEB plan'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 OPEB board's adopted asset allocation policy as of September 30, 2019:

Asset Class	Target Allocation
Domestic equity	35.00 %
International equity	15.00
Domestic bonds	22.50
International bonds	7.50
Real estate	10.00
Alternative assets	10.00
Total	100.00 %

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was (3.57) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 9 - 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 County 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.

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 years of service 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. The 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. The maximum total benefit is 75 percent of earnings.

Retirement 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 Retirement System does not have early retirement benefits. The benefits also include nonduty disability benefits and disability retirement benefits in limited situations.

In 2012, the Oakland County Board of County 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.

Employees Covered by Benefit Terms

At December 31, 2017, the date of the most recent actuarial valuation, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	594
Inactive plan members entitled to but not yet receiving benefits	53
Active plan members	412
	<hr/>
Total employees covered by the plan	1,059
	<hr/> <hr/>

Note 9 - Defined Benefit Pension Plan (Continued)

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Road Commission hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees hired prior to the 2012 amendments discussed above are not required to make pension contributions. The Road Commission's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2018, the average active employee contribution rate was 1.9 percent of annual pay, and the Road Commission's average contribution rate was 20.16 percent of annual payroll for the various employee groups.

Net Pension Liability

The Road Commission has chosen to use December 31, 2018 as its measurement date for the net pension liability. The September 30, 2019 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2018 measurement date. The December 31, 2018 total pension liability was determined by an actuarial valuation performed as December 31, 2017, which used updated procedures to roll forward the estimated liability to December 31, 2018.

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 January 1, 2018	\$ 231,334,514	\$ 197,732,905	\$ 33,601,609
Changes for the year:			
Service cost	3,124,068	-	3,124,068
Interest	16,339,315	-	16,339,315
Differences between expected and actual experience	(2,704,568)	-	(2,704,568)
Contributions - Employer	-	5,500,008	(5,500,008)
Contributions - Employee	-	521,280	(521,280)
Net investment income	-	(9,938,095)	9,938,095
Benefit payments, including refunds	(14,966,784)	(14,966,784)	-
Net changes	1,792,031	(18,883,591)	20,675,622
Balance at December 31, 2018	<u>\$ 233,126,545</u>	<u>\$ 178,849,314</u>	<u>\$ 54,277,231</u>

The plan's fiduciary net position represents 76.7 percent of the total pension liability.

September 30, 2019

Note 9 - Defined Benefit Pension Plan (Continued)

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

For the year ended September 30, 2019, the Road Commission recognized pension expense of \$11,158,616. At September 30, 2019, 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
Difference between expected and actual experience	\$ -	\$ 3,147,790
Changes in assumptions	1,073,905	-
Net difference between projected and actual earnings on pension plan investments	15,671,209	-
Employer contributions to the plan subsequent to the measurement date	4,125,006	-
Total	<u>\$ 20,870,120</u>	<u>\$ 3,147,790</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending September 30	Amount
2020	\$ 5,198,151
2021	1,690,899
2022	1,918,382
2023	4,789,892

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 3.0 percent; assumed salary increases (including inflation) of 4.5 percent; an investment rate of return (net of investment expenses) of 7.25 percent; and using 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 7.25 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.

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.

Note 9 - Defined Benefit Pension Plan (Continued)

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2018 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	6.00 %
International equity	7.00
Domestic bonds	2.00
International bonds	3.00
Private equity	3.00

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 7.25 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 or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (6.25%)	Current Discount Rate (7.25%)	1 Percentage Point Increase (8.25%)
Net pension liability of the Road Commission	\$ 79,009,077	\$ 54,277,231	\$ 33,253,662

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 pension board's adopted asset allocation policy as of December 31, 2018:

Asset Class	Target Allocation
Domestic equity	44.00 %
International equity	17.00
Domestic bonds	22.00
International bonds	6.00
Real estate	11.00
Total	<u>100.00 %</u>

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (5.13) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 9 - Defined Benefit Pension Plan (Continued)

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, the employee's balance is returned to him or her; 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.

The balances of the reserve accounts at December 31, 2018 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 152,506,918	\$ 152,506,918
Employee reserve	1,397,552	1,397,552
Employer reserve	-	24,944,844

Note 10 - Construction in Progress

The total contract cost of Road Fund construction projects in progress at September 30, 2019 was \$121 million. Costs incurred to date totaled \$85 million, leaving \$36 million of remaining commitments. The Road Commission's net share of these costs following estimated revenue from federal aid and contributions from state and local participants totals approximately \$8 million. Furthermore, 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.

Required Supplemental Information

Road Commission for Oakland County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund

Year Ended September 30, 2019

	Original Budget	Amended Budget	Actual	Variance (Unfavorable) Favorable
Revenue				
Intergovernmental:				
Federal sources	\$ 13,375,000	\$ 24,728,026	\$ 18,083,207	\$ (6,644,819)
State-shared revenue and grants:				
Other state sources	20,050,000	37,691,578	35,660,549	(2,031,029)
State aid - Act 51	102,424,330	102,424,330	103,292,969	868,639
Revenue from county and local governments	16,530,847	24,515,560	18,355,106	(6,160,454)
Interest	350,000	350,000	1,501,619	1,151,619
Fees and other revenue	2,520,153	2,520,153	3,036,030	515,877
Total revenue	155,250,330	192,229,647	179,929,480	(12,300,167)
Expenditures				
Central operations	11,573,303	16,360,918	10,828,417	5,532,501
Engineering department	5,280,959	5,291,828	4,898,661	393,167
Traffic department	13,610,326	19,235,596	11,191,584	8,044,012
Maintenance department	38,477,253	68,369,329	50,320,147	18,049,182
Nondepartmental	27,773,867	28,726,365	25,778,906	2,947,459
General administration:				
Board of County Road Commissioners	178,295	180,295	161,341	18,954
Managing director	873,344	914,844	856,534	58,310
Planning and environmental concerns	2,256,990	2,638,736	2,459,470	179,266
Customer services	1,355,718	1,464,668	1,433,788	30,880
Finance department	1,042,138	1,080,124	1,062,294	17,830
Legal department	659,222	662,622	647,513	15,109
Human resources department	1,427,609	1,344,759	1,309,233	35,526
Project expenditures:				
Road improvement program and construction	47,666,306	79,528,284	61,720,055	17,808,229
Signals	3,075,000	4,225,144	2,131,012	2,094,132
Total expenditures	155,250,330	230,023,512	174,798,955	55,224,557
Excess of Revenue (Under) Over Expenditures	-	(37,793,865)	5,130,525	42,924,390
Other Financing Sources - Sale of capital assets	-	-	965,000	965,000
Net Change in Fund Balance	-	(37,793,865)	6,095,525	43,889,390
Fund Balance - Beginning of year	66,620,616	66,620,616	66,620,616	-
Fund Balance - End of year	<u>\$ 66,620,616</u>	<u>\$ 28,826,751</u>	<u>\$ 72,716,141</u>	<u>\$ 43,889,390</u>

Road Commission for Oakland County

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

	Last Five Fiscal Years				
	Calendar 2018 (Measurement Date)	Calendar 2017 (Measurement Date)	Calendar 2016 (Measurement Date)	Calendar 2015 (Measurement Date)	Calendar 2014 (Measurement Date)
Total Pension Liability					
Service cost	\$ 3,124,068	\$ 3,073,556	\$ 2,989,130	\$ 3,051,003	\$ 3,155,013
Interest	16,339,315	16,072,123	16,164,956	15,808,776	14,514,850
Differences between expected and actual experience	(2,704,568)	(758,729)	(3,883,527)	130,100	-
Changes in assumptions	-	-	5,264,846	-	13,599,393
Benefit payments, including refunds	(14,966,784)	(14,492,548)	(14,330,639)	(14,045,521)	(13,864,197)
Net Change in Total Pension Liability	1,792,031	3,894,402	6,204,766	4,944,358	17,405,059
Total Pension Liability - Beginning of year	231,334,514	227,440,112	221,235,346	216,290,988	198,885,929
Total Pension Liability - End of year	<u>\$ 233,126,545</u>	<u>\$ 231,334,514</u>	<u>\$ 227,440,112</u>	<u>\$ 221,235,346</u>	<u>\$ 216,290,988</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 5,500,008	\$ 5,500,008	\$ 5,125,005	\$ 4,775,031	\$ 4,550,666
Contributions - Member	521,280	365,292	238,026	152,174	69,290
Net investment (loss) income	(9,938,095)	24,412,206	12,627,730	(2,390,637)	9,222,182
Benefit payments, including refunds	(14,966,784)	(14,492,548)	(14,330,639)	(14,045,521)	(13,864,197)
Other	-	-	-	32,952	68,663
Net Change in Plan Fiduciary Net Position	(18,883,591)	15,784,958	3,660,122	(11,476,001)	46,604
Plan Fiduciary Net Position - Beginning of year	197,732,905	181,947,947	178,287,825	189,763,826	189,717,222
Plan Fiduciary Net Position - End of year	<u>\$ 178,849,314</u>	<u>\$ 197,732,905</u>	<u>\$ 181,947,947</u>	<u>\$ 178,287,825</u>	<u>\$ 189,763,826</u>
Road Commission's Net Pension Liability - Ending	<u>\$ 54,277,231</u>	<u>\$ 33,601,609</u>	<u>\$ 45,492,165</u>	<u>\$ 42,947,521</u>	<u>\$ 26,527,162</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.72 %	85.47 %	80.00 %	80.59 %	87.74 %
Covered Payroll	\$ 27,284,434	\$ 26,202,526	\$ 25,812,871	\$ 25,746,863	\$ 23,992,497
Road Commission's Net Pension Liability as a Percentage of Covered Payroll	198.93 %	128.24 %	176.24 %	166.81 %	110.56 %

See notes to required supplemental information.

Road Commission for Oakland County

Required Supplemental Information Schedule of Retirement System Investment Returns

	Last Five Years				
	Years Ended December 31				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	(5.13)%	13.94 %	7.30 %	(1.30)%	5.00 %

Road Commission for Oakland County

Required Supplemental Information Schedule of Pension Contributions Retirement System

Last Ten Fiscal Years Years Ended September 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily required contribution	\$ 4,845,037	\$ 4,946,674	\$ 4,552,404	\$ 4,673,005	\$ 4,695,098	\$ 4,541,767	\$ 4,039,343	\$ 3,609,303	\$ 4,018,817	\$ 3,603,793
Contributions in relation to the statutorily required contribution	5,590,173	5,571,060	5,549,161	5,032,209	4,721,207	4,500,000	4,500,000	4,500,000	3,885,303	4,500,000
Contribution (Excess) Deficiency	\$ (745,136)	\$ (624,386)	\$ (996,757)	\$ (359,204)	\$ (26,109)	\$ 41,767	\$ (460,657)	\$ (890,697)	\$ 133,514	\$ (896,207)
Road Commission's Covered Payroll	\$ 28,450,012	\$ 26,580,730	\$ 25,249,051	\$ 24,262,746	\$ 24,377,458	\$ 23,929,227	\$ 23,746,871	\$ 22,901,670	\$ 25,761,648	\$ 25,631,529
Contributions as a Percentage of Covered Payroll	19.65 %	20.96 %	21.98 %	20.74 %	19.37 %	18.81 %	18.95 %	19.65 %	15.08 %	17.56 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31 each year, which is nine months prior to the beginning of the employer's fiscal year in which the 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	26 years (closed)
Asset valuation method	Five-year smoothed market
Salary increase	3.00 to 4.50 percent, including inflation
Investment rate of return	7.25 percent
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	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.

Road Commission for Oakland County

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

	Last Two Years	
	Calendar 2018 (Measurement Date)	Calendar 2017 (Measurement Date)
Total OPEB Liability		
Service cost	\$ 1,573,510	\$ 1,621,095
Interest	9,551,241	9,356,095
Differences between expected and actual experience	(1,156,753)	(632,191)
Benefit payments, including refunds	<u>(7,146,848)</u>	<u>(6,990,683)</u>
Net Change in Total OPEB Liability	2,821,150	3,354,316
Total OPEB Liability - Beginning of year	<u>161,974,020</u>	<u>158,619,704</u>
Total OPEB Liability - End of year	<u>\$ 164,795,170</u>	<u>\$ 161,974,020</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 12,321,830	\$ 7,828,088
Net investment (loss) income	(1,368,386)	4,152,180
Benefit payments, including refunds	<u>(7,146,848)</u>	<u>(6,990,683)</u>
Net Change in Plan Fiduciary Net Position	3,806,596	4,989,585
Plan Fiduciary Net Position - Beginning of year	<u>36,330,279</u>	<u>31,340,694</u>
Plan Fiduciary Net Position - End of year	<u>\$ 40,136,875</u>	<u>\$ 36,330,279</u>
Net OPEB Liability - Ending	<u>\$ 124,658,295</u>	<u>\$ 125,643,741</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	24.36 %	22.43 %
Covered Employee Payroll	\$ 27,284,434	\$ 29,065,846
Net OPEB Liability as a Percentage of Covered Employee Payroll	456.88 %	432.27 %

Road Commission for Oakland County

Required Supplemental Information
Schedule of OPEB Investment Returns

Last Two Years

Years Ended December 31

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	(3.57)%	13.20 %

Road Commission for Oakland County

Notes to Required Supplemental Information

September 30, 2019

Budgetary Information

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 County Road Commissioners, is included in the supplemental information.

The Road Commission follows the following 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, 2019 is approximately \$42,900,000. 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.

Pension Information

Changes in Assumptions

For the December 31, 2014 measurement date, the Retirement System updated the mortality tables to RP-2014, and the wage inflation assumption was reduced to 3.25 percent from a range of 4.5 to 6.0 percent. For the December 31, 2016 measurement date, the Retirement System reduced the assumed investment rate of return from 7.5 to 7.25 percent.

Other Supplemental Information

Road Commission for Oakland County

Other Supplemental Information Budgetary Comparison Schedule - Subdivision Improvement Fund

Year Ended September 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance (Unfavorable) Favorable
Revenue				
Special assessment revenue	\$ 3,175,000	\$ 3,175,000	\$ 1,779,170	\$ (1,395,830)
Interest	250,000	250,000	458,871	208,871
Total revenue	3,425,000	3,425,000	2,238,041	(1,186,959)
Expenditures				
Project expenditures - Road improvement program and construction	4,800,000	4,800,000	2,443,599	2,356,401
Debt service - Interest on long-term debt	1,000	1,000	-	1,000
Total expenditures	4,801,000	4,801,000	2,443,599	2,357,401
Net Change in Fund Balance	(1,376,000)	(1,376,000)	(205,558)	1,170,442
Fund Balance - Beginning of year	9,321,790	9,321,790	9,321,790	-
Fund Balance - End of year	<u>\$ 7,945,790</u>	<u>\$ 7,945,790</u>	<u>\$ 9,116,232</u>	<u>\$ 1,170,442</u>