

Road Commission for Oakland County

**Financial Report
with Supplemental Information
September 30, 2017**

Road Commission for Oakland County

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Independent Auditor's Report

To the Board of Road Commissioners
Road Commission for Oakland County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary fund activity of the Road Commission for Oakland County (the "Road Commission"), a component unit of Oakland County, as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise the Road Commission for Oakland County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The retirement system and retiree healthcare trust were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Road Commissioners
Road Commission for Oakland County

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the fiduciary fund activity of the Road Commission for Oakland County as of September 30, 2017 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.

Other Matters

Required Supplemental Information

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

Other Information

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

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

To the Board of Road Commissioners
Road Commission for Oakland County

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018 on our consideration of the Road Commission for Oakland County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission for Oakland County's internal control over financial reporting and compliance.

Plante & Morse, PLLC

February 6, 2018

Road Commission for Oakland County

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2017. Please read this in conjunction with the financial statements.

Using this Annual Report

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

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

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

Financial Analysis of the Road Commission as a Whole

The following tables provide condensed information about the total full-accrual finances of the Road Commission as of September 30, 2017 and 2016 and for the years then ended. As discussed above, the total full-accrual columns report the Road Commission's net position and how it has changed. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position may be one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, the reader also needs to consider additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the laws related to gas taxes and their distribution.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

	September 30	
	2017	2016
Assets		
Current and other assets	\$ 96,609,175	\$ 88,914,574
Capital assets	835,865,642	819,777,887
Total assets	932,474,817	908,692,461
Deferred Outflows of Resources	22,885,945	26,075,995
Liabilities		
Current liabilities	21,394,963	24,768,684
Long-term liabilities	82,380,742	74,756,572
Total liabilities	103,775,705	99,525,256
Deferred Inflows of Resources	2,853,168	-
Net Position		
Net investment in capital assets	835,865,642	819,777,887
Unrestricted	12,866,247	15,465,313
Total net position	\$ 848,731,889	\$ 835,243,200
	Year Ended September 30	
	2017	2016
Revenue		
State aid - Act 51	\$ 85,055,044	\$ 67,025,006
Other state sources	11,942,268	21,663,865
Federal sources	28,483,333	25,314,711
Revenue from county and local governments	10,903,039	12,723,771
Other	5,377,175	8,995,692
Total revenue	141,760,859	135,723,045
Expenses		
General administration	5,888,901	5,913,067
Departmental operations and maintenance	39,770,065	40,640,915
Nondepartmental	34,030,022	30,585,064
Interest	-	11,514
Depreciation	48,583,182	46,236,717
Total expenses	128,272,170	123,387,277
Change in net position	\$ 13,488,689	\$ 12,335,768

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The Road Commission's net position increased approximately 1.6 percent, from \$835,243,200 to \$848,731,889 for the year ended September 30, 2017. This increase was primarily because capital grants were provided in the current year for capital expenditures that will be recognized in future years as depreciation expense. The net investment in capital assets increased by \$16,087,755 and \$23,911,752 for the years ended September 30, 2017 and 2016, respectively.

The Road Commission's revenue for the year ended September 30, 2017 increased 4.4 percent from the prior year total. Revenue from county and local governments decreased 14.3 percent while revenue from state aid increased 26.9 percent and revenue from federal sources increased 12.5 percent. Fiscal year 2017 represented nine months of an increase in revenue from the Michigan Transportation Fund. State and federal primarily represent participation in road construction projects. Expenditures for road improvements and construction also increased from the preceding year. Road construction activity for the current year increased 4.9 percent and signals activity for the current year decreased 15.3 percent from that of the preceding year. Total expenses for the fiscal year ended September 30, 2017 were 4.0 percent more than the preceding year's total.

Financial Analysis of Individual Funds of the Road Commission

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

The Road Fund is used to account for the general operations of the Road Commission. It is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the Road Commission, which are earmarked by law for road and highway purposes. For the year ended September 30, 2017, the fund balance of the Road Fund increased by \$6,591,905. Total revenue was \$138,747,085 and total expenditures were \$132,155,180, which represented an increase in revenue from the prior year of 7.4 percent and an increase in expenditures from the prior year of 5.7 percent. The increase in revenue was due principally to increases in federal revenue for construction projects and road maintenance as well as increased 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 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, 2017 was \$20,318,818 higher than the original budget, due primarily 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, 2017 was lower than the amended budget by \$7,707,433.

The amended Road Fund expenditure budget for the year ended September 30, 2017 was \$34,137,854 higher than the original budget, due primarily to budget adjustments to reflect increased RIP expenditures as well as increases to each of the departmental budgets. Each year, the original budget is amended for the prior year's capital outlay, contracted services, and RIP expenditures that were committed to in the prior year but where the goods were not received or services were not performed until the subsequent year. The actual expenditures recognized during the year ended September 30, 2017 were less than the amended budget by \$31,118,374 due principally to this type of expenditure timing difference.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2017 and 2016, the Road Commission had invested \$835,865,642 and \$819,777,887, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$16,087,755, or 2.0 percent. The Road Commission added \$64,670,937 to its investment in capital assets during the current year, including \$59,613,917 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.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

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

	<u>2017</u>	<u>2016</u>
Buildings, storage bins, and related - Including land and construction in progress	\$ 1,108,694	\$ 392,324
Road equipment	3,821,670	6,155,427
Other equipment	126,656	825,671
Infrastructure - Including land	<u>59,613,917</u>	<u>62,275,047</u>
Total additions	<u>\$ 64,670,937</u>	<u>\$ 69,648,469</u>

Debt Administration

At September 30, 2017 and 2016, the Road Commission's debt included only other long-term obligations.

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

Economic Factors and Next Year's Budget

In November 2015, the State of Michigan enacted nine bills into law which are intended to raise an additional \$1.2 billion of future annual revenue for transportation purposes. While the Road Commission is grateful for this increase, there are concerns. Beginning in 2017 and reaching 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. The transfers from the General Fund will phase in beginning in 2018 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.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Beginning in January 2017, the vehicle registration fees and fuel tax revenue increase went into effect. For the State, these increases resulted in a registration fee increase of 22.6 percent over the prior year, a 51.1 percent motor fuel tax increase over the prior year, and a 623.7 percent diesel fuel tax increase over the prior year. The increase means an annual increase of 37.9 percent for the State and a 26.9 percent increase in MTF revenue over the prior year. The increase from the prior 10 years for the Road Commission was 37.9 percent. The legislative increases to fuel taxes and registration fees are forecasted to result in an increase of MTF revenue of approximately \$20 million each year. The increase in revenue will help the Road Commission replace its aging fleet, potentially provide an increase in staffing for maintenance of our roads, and invest in capital road projects and traffic signal systems. Due to uncertainty, the Road Commission is not including the General Fund appropriation in its revenue projects. The unknown amount would start at \$4 million in fiscal year 2018 and increase each year up to \$20 million as it is phase-in.

Contacting the Road Commission's Financial Management

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

Road Commission for Oakland County

Statement of Net Position/Governmental Funds Balance Sheet September 30, 2017

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
Assets					
Cash and cash equivalents (Note 4)	\$ 60,212,164	\$ 7,586,892	\$ 67,799,056	\$ -	\$ 67,799,056
Receivables:					
Accounts	16,248,369	-	16,248,369	-	16,248,369
Special assessments	-	5,727,905	5,727,905	-	5,727,905
Internal receivables	231,854	(231,854)	-	-	-
Inventory	4,676,522	-	4,676,522	-	4,676,522
Deposits, prepaid expenses, and other assets	2,157,323	-	2,157,323	-	2,157,323
Capital assets (Note 5):					
Assets not subject to depreciation	-	-	-	212,337,013	212,337,013
Assets subject to depreciation	-	-	-	623,528,629	623,528,629
Total assets	83,526,232	13,082,943	96,609,175	835,865,642	932,474,817
Deferred Outflows of Resources -					
Pension (Note 11)	-	-	-	22,885,945	22,885,945
Total assets and deferred outflows	\$ 83,526,232	\$ 13,082,943	\$ 96,609,175	858,751,587	955,360,762
Liabilities					
Accounts payable	\$ 8,644,512	\$ 156,792	\$ 8,801,304	-	8,801,304
Advances and unearned revenue	8,439,100	295,025	8,734,125	-	8,734,125
Deposits	1,007,253	-	1,007,253	-	1,007,253
Accrued liabilities and other	1,253,231	-	1,253,231	1,190,000	2,443,231
Noncurrent liabilities:					
Due within one year - Provision for uninsured losses (Notes 6 and 8)	-	-	-	409,050	409,050
Due in more than one year:					
Compensated absences (Note 6)	-	-	-	2,857,000	2,857,000
Provision for uninsured losses (Notes 6 and 8)	-	-	-	418,430	418,430
Net OPEB obligation (Notes 6 and 10)	-	-	-	33,613,147	33,613,147
Net pension liability (Notes 6 and 11)	-	-	-	45,492,165	45,492,165
Total liabilities	19,344,096	451,817	19,795,913	83,979,792	103,775,705
Deferred Inflows of Resources					
Unavailable revenue (Note 1)	3,082,229	4,440,835	7,523,064	(7,523,064)	-
Pension (Note 11)	-	-	-	2,853,168	2,853,168
Total deferred inflows of resources	3,082,229	4,440,835	7,523,064	(4,669,896)	2,853,168
Fund Balance					
Nonspendable:					
Inventory	4,676,522	-	4,676,522	(4,676,522)	-
Prepays	2,157,323	-	2,157,323	(2,157,323)	-
Assigned (Note 9)	54,266,062	8,190,291	62,456,353	(62,456,353)	-
Total fund balance	61,099,907	8,190,291	69,290,198	(69,290,198)	-
Total liabilities, deferred inflows, and fund balance	\$ 83,526,232	\$ 13,082,943	\$ 96,609,175		
Net Position					
Net investment in capital assets				835,865,642	835,865,642
Unrestricted				12,866,247	12,866,247
Total net position				\$ 848,731,889	\$ 848,731,889

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

Road Commission for Oakland County

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balances Year Ended September 30, 2017

	Road Fund	Subdivision Improvement Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Activities
Revenue					
State aid - Act 51	\$ 85,055,044	\$ -	\$ 85,055,044	\$ -	\$ 85,055,044
Other state sources	11,897,723	-	11,897,723	44,545	11,942,268
Federal sources	28,061,302	-	28,061,302	422,031	28,483,333
Revenue from county and local governments	10,897,371	-	10,897,371	5,668	10,903,039
Special assessment revenue	-	2,331,731	2,331,731	(664,091)	1,667,640
Interest	471,808	289,799	761,607	-	761,607
Fees and other revenue	2,363,837	-	2,363,837	584,091	2,947,928
Total revenue	138,747,085	2,621,530	141,368,615	392,244	141,760,859
Expenditures					
General administration	6,059,591	-	6,059,591	(170,690)	5,888,901
Central operations	9,656,158	-	9,656,158	(3,458,540)	6,197,618
Engineering department	4,574,582	-	4,574,582	(3,940,841)	633,741
Traffic department	10,002,180	-	10,002,180	(2,600,087)	7,402,093
Maintenance department	31,324,004	-	31,324,004	(2,395,091)	28,928,913
Nondepartmental	22,884,207	-	22,884,207	11,145,815	34,030,022
Project expenditures:					
Road improvement program and construction	44,940,983	1,960,594	46,901,577	(50,293,877)	(3,392,300)
Signals	2,713,475	-	2,713,475	(2,713,475)	-
Depreciation expense	-	-	-	48,583,182	48,583,182
Total expenditures	132,155,180	1,960,594	134,115,774	(5,843,604)	128,272,170
Net Change in Fund Balances/Net Position	6,591,905	660,936	7,252,841	6,235,848	13,488,689
Fund Balances/Net Position - Beginning of year	54,508,002	7,529,355	62,037,357	773,205,843	835,243,200
Fund Balances/Net Position - End of year	\$ 61,099,907	\$ 8,190,291	\$ 69,290,198	\$ 779,441,691	\$ 848,731,889

Road Commission for Oakland County

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2016 (Notes 1 and 4)

	Retirement System	Retiree Health Care Trust
Assets		
Cash and short-term investments (Note 4)	\$ 5,799,573	\$ 218,938
Investments (Note 4):		
U.S. government debt obligations	-	3,904,217
U.S. agencies debt obligations	5,536,595	2,857,584
Corporate debt obligations	5,172,593	1,246,320
Municipal debt obligations	18,706,209	-
Corporate equities	121,145,910	18,996,637
Interest in investment pools	2,621,345	-
Limited partnerships	15,620,648	2,810,490
Mutual funds	9,884,935	1,467,423
Receivables - Interest and dividends	372,659	28,725
Total assets	184,860,467	31,530,334
Liabilities		
Accounts payable	121,098	189,640
Securities lending collateral payable	2,791,422	-
Total liabilities	2,912,520	189,640
Net Position - Held in trust for pension and retiree healthcare benefits	\$ 181,947,947	\$ 31,340,694

Road Commission for Oakland County

Fiduciary Funds

Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2016 (Notes 1 and 4)

	Retirement System	Retiree Health Care Trust
Additions		
Investment income:		
Interest and dividends	\$ 3,965,890	\$ 738,858
Net increase in fair value of investments	9,135,214	1,177,271
Less investment expenses	(503,259)	(57,483)
Net investment income	12,597,845	1,858,646
Securities lending income	29,885	-
Contributions:		
Employer	5,125,005	8,520,253
Employee	238,026	-
Total contributions	5,363,031	8,520,253
Total additions	17,990,761	10,378,899
Deductions - Benefit payments	14,330,639	6,590,253
Net Increase	3,660,122	3,788,646
Net Position Held in Trust for Pension and Retiree Healthcare Benefits - Beginning of year	178,287,825	27,552,048
Net Position Held in Trust for Pension and Retiree Healthcare Benefits - End of year	\$ 181,947,947	\$ 31,340,694

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies

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

All funds of the Road Commission have a September 30 year end except the Retirement System and the Retiree Health Care Trust, which are fiduciary funds maintained on a calendar year reporting basis. The September 30, 2017 financial statements of the Road Commission include certain Retirement System and Retiree Health Care Trust financial data as previously reported at December 31, 2016, the latest available financial statements of the Retirement System and the Retiree Health Care Trust.

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

In accordance with GASB Statement No. 34 definitions, the Road Commission has summarized its September 30, 2017 revenue into the following program revenue categories:

Charges for services	\$ 16,970,967
Operating grants and contributions	85,597,721
Capital grants and contributions	<u>39,192,171</u>
Total revenue	<u>\$ 141,760,859</u>

Basic Financial Statements - Government-wide and Fund Financial Statements

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

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

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

When an expense is incurred for 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.

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

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

The Road Commission reports the following major governmental funds:

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

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

The Road Commission also reports the following additional funds:

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

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

Assets, Liabilities, and Net Position or Equity

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

Accounts Receivable - Accounts receivable are primarily amounts due from other units of government. Accounts receivable at September 30, 2017 are recorded net of approximately \$95,600 of allowances.

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

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

Depreciation charges in 2017 totaled \$48,583,182 based on the following methods and useful lives:

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements report deferred outflows from the difference between expected and actual investment earnings, contributions made after the measurement date of the net pension liability, and changes in assumptions in relation to the pension plan.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. During fiscal year 2017, the Road Commission had deferred inflows of resources related to the difference between expected and actual experience related to the defined benefit pension plan, along with grant reimbursement funding and special assessment receivables that were not received within the 60-day period of availability.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board of road commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

- Assigned: Intent to spend resources on specific purposes expressed by the governing body or director of finance, who is authorized by resolution approved by the board to make assignments

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

Note 2 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Road Commission to recognize on the face of the financial statements the net OPEB liability related to its participation in the Retiree Health Care Trust. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending September 30, 2018.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

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

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

Fund Balance Reported in Governmental Funds	\$ 69,290,198
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	835,865,642
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	4,440,835
Federal, state, local, and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	3,082,229
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	(2,857,000)
Net OPEB obligations do not present a claim on current financial resources and are not reported as fund liabilities	(33,613,147)
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	(2,017,480)
Net pension liabilities and pension-related deferred outflows and inflows are not current financial resources and are not reported in the funds	<u>(25,459,388)</u>
Net Position of Governmental Activities	<u>\$ 848,731,889</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

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

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

Net Change in Fund Balances - Total Governmental Funds \$ 7,252,841

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	64,670,937
Depreciation expense	(48,583,182)

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	(664,091)
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In the governmental funds, federal, state, and local revenue (including insurance claims receivable) not collected within 60 days of year end is not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	594,989
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Changes in accumulated sick and vacation pay, net other postemployment obligations, and estimated general liability and workers' compensation claims are recorded when earned in the statement of activities	(1,194,943)
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Change in net pension liability and related deferred outflows and inflows do not require the use of current financial resources	<u>(8,587,862)</u>
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Change in Net Position of Governmental Activities	<u>\$ 13,488,689</u>
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Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$14,520,957 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 \$46,330,867 invested in the Oakland County Investment Pool, which had an average maturity of investments of 0.90 years.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Government Obligations Fund IS	\$ 7,503,956	Aaa	Moody's
Oakland County Investment Pool	46,330,867	Not rated	N/A
Total	<u>\$ 53,834,823</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 \$46.3 million invested in the Oakland County Investment Pool and \$7.5 million invested in the Government Obligations Fund IS at Federated Bank at September 30, 2017. These investments represent approximately 68 percent and 11 percent, respectively, of total cash equivalents reported on the statement of net position/governmental funds balance sheet at September 30, 2017. 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, 2016)

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

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

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

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

At December 31, 2016, the System had \$934,174 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, 2016, 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	\$ 5,536,595	\$ 248	\$ 4,292,234	\$ 295,233	\$ 948,880
Municipal debt obligations	18,706,209	170,095	4,253,064	1,429,841	12,853,209
Corporate bonds	5,172,593	519,618	2,788,457	1,319,696	544,822
Total	<u>\$ 29,415,397</u>	<u>\$ 689,961</u>	<u>\$ 11,333,755</u>	<u>\$ 3,044,770</u>	<u>\$ 14,346,911</u>

Credit Risk - As of December 31, 2016, 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 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.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

The credit ratings of these securities at December 31, 2016 are as follows:

<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
\$ 1,767,082	AAA	S&P
14,829,016	AA	S&P
5,573,337	A	S&P
576,801	BBB	S&P
<u>11,112,996</u>	Not rated	N/A
<u>\$ 33,859,232</u>		

Securities Lending Transactions - State statutes and the board of trustees' investment policies permit participation of the System in securities lending transactions, loans of securities to broker-dealers, and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The System, via a securities lending authorization agreement, authorized the custodial bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2016, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

The System did not impose any restrictions during the fiscal year on the amount of loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2016. There were no losses to the System or the custodial bank during the year ended December 31, 2016 resulting from default of the borrowers. One of the instruments acquired by the securities lending program (comprising approximately 6.0 percent of the total portfolio) has incurred an unrealized loss in fair market value. The System has initiated litigation with the counterparties to attempt to recoup any potential loss.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

During the year ended December 31, 2016, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The System's share of the short-term investment pool includes a floating rate note with zero market value. The floating rate note is not rated by S&P. The remaining investments in the pool consist of cash equivalents and mutual funds with an S&P rating of AAAm. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held (at market) and the fair value of the underlying securities on loan as of December 31, 2016 were \$2,621,345 and \$2,678,321, respectively.

Retiree Health Care Trust Deposits and Investments (As of December 31, 2016)

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. At year end, the Trust had no bank deposits (cash and money market accounts) that were uninsured and uncollateralized. Each of the accounts of the Trust's four investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace stocks or bonds held by the broker-dealer. The Trust believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Trust evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Trust's investment policy does not have specific restrictions on investment maturities. At December 31, 2016, 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	\$ 3,904,217	\$ -	\$ -	\$ 3,904,217	\$ -
U.S. agency obligations	2,857,584	165,091	1,232,919	994,274	465,300
Corporate bonds	1,246,320	-	593,115	653,205	-
Total	<u>\$ 8,008,121</u>	<u>\$ 165,091</u>	<u>\$ 1,826,034</u>	<u>\$ 5,551,696</u>	<u>\$ 465,300</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, 2016, the Trust held U.S. government debt obligations, U.S. agency obligations, corporate bonds, and corporate mortgage-/asset-backed securities subject to credit risk. The credit ratings of these securities are as follows:

Fair Value	Rating	Rating Organization
\$ 1,339,467	AA	S&P
576,909	A	S&P
556,951	BBB	S&P
5,534,794	Not rated	N/A
<u>\$ 8,008,121</u>		

Risks and Uncertainties

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

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

Fair Value Measurements

The Road Commission 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 the 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 or liability.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

The Road Commission has the following fair value measurements as of September 30, 2017 (with the exception of the Retirement System and Retiree Health Care Trust which are valued at December 31, 2016):

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at September 30, 2017	Fair Value Measurement Using		
		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	\$ 5,536,595	\$ -	\$ 5,536,595	\$ -
Corporate debt obligations	5,172,593	-	5,172,593	-
Municipal debt obligations	18,706,209	-	18,706,209	-
Mutual funds - Fixed income	9,884,935	9,884,935	-	-
Corporate equities	121,145,910	121,145,910	-	-
Total debt securities	160,446,242	131,030,845	29,415,397	-
Retiree Health Care Trust:				
U.S. government debt obligations	3,904,217	-	3,904,217	-
U.S. agencies debt obligations	2,857,584	-	2,857,584	-
Corporate debt obligations	1,246,320	-	1,246,320	-
Mutual funds - Fixed income	1,467,423	1,467,423	-	-
Corporate equities	18,996,637	18,996,637	-	-
Total equity securities	28,472,181	20,464,060	8,008,121	-
Total investments by fair value level	188,918,423	\$ 151,494,905	\$ 37,423,518	\$ -
Investments Measured at Net Asset Value (NAV)				
Oakland County Local Government Investment Pool (held by Road Commission)	46,330,867			
Limited partnerships - Real estate funds (held by Retirement System and Retiree Health Care Trust)	18,431,138			
Total investments measured at fair value	\$ 253,680,428			

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 in the following table.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission holds shares or interests in 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, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Total investments measured at NAV:				
Oakland County Local Government Investment Pool	\$ 46,330,867	\$ -	No restrictions	None
Limited partnerships - Real estate funds	<u>18,431,138</u>	<u>-</u>	No restrictions	None
Total investments measured at NAV	<u>\$ 64,762,005</u>	<u>\$ -</u>		

The Oakland County LGIP invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land used for infrastructure	\$ 203,626,774	\$ 5,737,907	\$ -	\$ 209,364,681
Land	1,887,459	-	-	1,887,459
Construction in progress	31,012	1,053,861	-	1,084,873
Subtotal	205,545,245	6,791,768	-	212,337,013
Capital assets being depreciated:				
Infrastructure	1,029,513,618	53,876,010	(17,229,230)	1,066,160,398
Buildings and storage bins	21,331,484	54,833	-	21,386,317
Road equipment	55,125,606	3,821,670	(781,714)	58,165,562
Other equipment	6,067,916	126,656	-	6,194,572
Brine walls and gravel pits	2,489,608	-	-	2,489,608
Subtotal	1,114,528,232	57,879,169	(18,010,944)	1,154,396,457
Accumulated depreciation:				
Infrastructure	435,447,867	43,743,559	(17,229,230)	461,962,196
Buildings and storage bins	12,675,589	565,275	-	13,240,864
Road equipment	45,651,943	3,999,832	(781,714)	48,870,061
Other equipment	4,996,729	161,978	-	5,158,707
Brine walls and gravel pits	1,523,462	112,538	-	1,636,000
Subtotal	500,295,590	48,583,182	(18,010,944)	530,867,828
Net capital assets being depreciated	614,232,642	9,295,987	-	623,528,629
Net capital assets	\$ 819,777,887	\$ 16,087,755	\$ -	\$ 835,865,642

Note 6 - Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2017:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Other long-term liabilities:					
Provision for uninsured losses	\$ 1,012,333	\$ 754,462	\$ (939,315)	\$ 827,480	\$ 409,050
Employee compensated absences	3,078,900	-	(221,900)	2,857,000	-
Net other postemployment benefits	28,201,451	5,411,696	-	33,613,147	-
Net pension liability	42,947,521	2,544,644	-	45,492,165	-
Total long-term debt	\$ 75,240,205	\$ 8,710,802	\$ (1,161,215)	\$ 82,789,792	\$ 409,050

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 7 - Contingent Liabilities

The Road Commission has been named as a defendant in numerous accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program (see Note 8). It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters have been recorded as a liability at September 30, 2017. 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, 2017. 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.

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

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

Note 8 - Insurance Programs

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 8 - Insurance Programs (Continued)

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, 2017. 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, 2017 and 2016 are as follows:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Medical</u>	<u>Total</u>
Estimated liability - October 1, 2015	\$ 1,146,200	\$ 1,000,000	\$ -	\$ 2,146,200
Estimated claims incurred, including changes in estimates	153,461	19,396	11,977,086	12,149,943
Claim payments, including related legal and administrative expenses	<u>(137,328)</u>	<u>(269,396)</u>	<u>(11,977,086)</u>	<u>(12,383,810)</u>
Estimated liability - September 30, 2016	1,162,333	750,000	-	1,912,333
Estimated claims incurred, including changes in estimates	754,462	169,598	11,417,091	12,341,151
Claim payments, including related legal and administrative expenses	<u>(755,295)</u>	<u>(353,618)</u>	<u>(11,417,091)</u>	<u>(12,526,004)</u>
Estimated liability - September 30, 2017	<u>\$ 1,161,500</u>	<u>\$ 565,980</u>	<u>\$ -</u>	<u>\$ 1,727,480</u>
Estimated current portion - Included in accrued liabilities in the Road Fund	\$ 900,000	\$ -	\$ -	\$ 900,000
Estimated long-term portion	<u>261,500</u>	<u>565,980</u>	<u>-</u>	<u>827,480</u>
Total estimated liability	<u>\$ 1,161,500</u>	<u>\$ 565,980</u>	<u>\$ -</u>	<u>\$ 1,727,480</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 9 - Assigned Fund Balances

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

	Road Fund	Subdivision Improvement Fund	Total
Construction	\$ 18,960,042	\$ -	\$ 18,960,042
Capital outlay and contracted services	11,290,953	-	11,290,953
Building fund	2,482,890	-	2,482,890
Future years' triparty construction participation	6,500,000	-	6,500,000
Long-term portion of provision for:			
Postemployment benefits	11,347,697	-	11,347,697
Uninsured losses	827,480	-	827,480
Compensated absences	2,857,000	-	2,857,000
Special assessment construction	-	8,190,291	8,190,291
Total	<u>\$ 54,266,062</u>	<u>\$ 8,190,291</u>	<u>\$ 62,456,353</u>

Note 10 - Retiree Healthcare Benefits

Plan Description - The Road Commission contributes to the Road Commission for Oakland County Retiree Health Care Trust (the "Trust"). The Trust, which was established by the Road Commission on January 26, 2006, provides for future payment of medical benefits and life insurance benefits for eligible retirees, their spouses, and their dependents. The obligation to provide benefits to employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2014, the date of the most recent actuarial valuation, membership consisted of 706 retirees and beneficiaries currently receiving benefits, 280 vested active employees, and 62 nonvested active employees.

A complete analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability is reported in the Road Commission's Retiree Health Care Trust financial report as of December 31, 2016. A copy of this report may be obtained from the Road Commission's administrative office, located at 31001 Lahser Road, Beverly Hills, MI 48025.

The Trust is included in the Road Commission's financial statements as the Retiree Health Care Trust. At December 31, 2016, the assets of the Trust included no securities of or loans to the Road Commission or any other related party. The Trust is administered by the Road Commission for Oakland County Retirement System Board of Trustees. Please refer to Note 1 for further significant accounting policies.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 10 - Retiree Healthcare Benefits (Continued)

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

Funding Progress - For the year ended September 30, 2017, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 14,231,695
Interest on the prior year's net OPEB obligation	1,269,065
Less adjustment to the annual required contribution	<u>(1,467,863)</u>
Annual OPEB cost	14,032,897
Amounts contributed:	
Payments of current premiums	(6,783,796)
Advance funding contributions	<u>(1,837,405)</u>
Increase in net OPEB obligation	5,411,696
OPEB obligation - Beginning of year	<u>28,201,451</u>
OPEB obligation - End of year	<u><u>\$ 33,613,147</u></u>

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

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
9/30/15	12/31/12	\$ 13,592,423	48.0 %	\$ 23,527,919
9/30/16	12/31/14	13,556,403	65.5	28,201,451
9/30/17	12/31/14	14,032,898	61.4	33,613,147

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 10 - Retiree Healthcare Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/10	\$ 17,831,624	\$ 136,635,101	\$ 118,803,477	13.1 %	\$ 26,377,984	450.4 %
12/31/12	20,855,271	141,817,626	120,962,355	14.7	24,164,524	500.6
12/31/14	26,319,715	171,533,944	145,214,229	15.3	23,047,528	630.1

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan

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

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

Employees Covered by Benefit Terms - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms (based on census data as of December 31, 2015):

Inactive plan members or beneficiaries currently receiving benefits	587
Inactive plan members entitled to but not yet receiving benefits	52
Active plan members	<u>392</u>
Total employees covered by the plan	<u>1,031</u>

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

Retirement benefits are calculated by multiplying the retirement system member's final average compensation (FAC) times the participant's 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. Maximum total benefit is 75 percent of earnings.

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

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan (Continued)

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

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

Contributions - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Road Commission for Oakland County retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of retirement system members are established and may be amended by the board of commissioners in accordance with the board's agreements, union contracts, and plan provisions. With the exception of certain employees described above, retirement system members are not required to contribute to the Retirement System. Administrative costs of the Retirement System are financed by the Road Commission for Oakland County. For the year ended December 31, 2016, the average active member contribution rate was 0.1 percent of annual pay and the Retirement System's average contribution rate was 19.9 percent of annual payroll.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan (Continued)

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Retirement System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of December 31, 2016:

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

Rate of Return - For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

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

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

The employee reserve is credited as employee contributions are received throughout the year; the Retirement System maintains a record of the amount contributed by each employee. For any employee who terminates before vesting in the pension plan, 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.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan (Continued)

The balances of the reserve accounts at December 31, 2016 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 136,598,938	\$ 136,598,938
Employee reserve	489,447	489,447
Employer reserve	N/A	44,859,562

Net Pension Liability

The components of the net pension liability of the Road Commission at December 31, 2016 were as follows:

Total pension liability	\$ 227,440,112
Plan fiduciary net position	<u>(181,947,947)</u>
Road Commission's net pension liability	<u>\$ 45,492,165</u>

Plan fiduciary net position as a percentage of the total pension liability 80.0 %

The Road Commission has chosen to use December 31, 2016 as its measurement date for the net pension liability. The September 30, 2017 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 221,235,346	\$ 178,287,825	\$ 42,947,521
Service cost	2,989,130	-	2,989,130
Interest	16,164,956	-	16,164,956
Differences between expected and actual experience	(3,883,527)	-	(3,883,527)
Changes in assumptions	5,264,846	-	5,264,846
Contributions - Employer	-	5,125,005	(5,125,005)
Contributions - Member	-	238,026	(238,026)
Net investment income	-	12,597,845	(12,597,845)
Benefit payments - Including refunds	(14,330,639)	(14,330,639)	-
Other	-	29,885	(29,885)
Net changes	<u>6,204,766</u>	<u>3,660,122</u>	<u>2,544,644</u>
Balance at December 31, 2016	<u>\$ 227,440,112</u>	<u>\$ 181,947,947</u>	<u>\$ 45,492,165</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - 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, 2017, the Road Commission recognized pension expense of \$14,087,870. At September 30, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual investment earnings	\$ -	\$ 2,853,168
Changes in assumptions	6,804,229	-
Net difference between projected and actual earnings on pension plan investments	11,956,710	-
Employer contributions to the plan subsequent to the measurement date	<u>4,125,006</u>	<u>-</u>
Total	<u>\$ 22,885,945</u>	<u>\$ 2,853,168</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$4,125,006), which will impact the net pension liability in fiscal year 2018, rather than pension expense.

<u>Years Ending September 30</u>	<u>Amount</u>
2018	\$ 7,538,164
2019	4,655,868
2020	3,626,023
2021	87,716

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

Inflation	2.8 %	
Salary increases	3.25 %	
Investment rate of return	7.3 %	Net of pension plan investment expense, including inflation

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan (Continued)

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

Note that the investment rate of return used in the measurement of the total pension liability was 7.25 percent while the actuarial valuation as of December 31, 2015 used 7.5 percent for investment rate of return. As a result, the total pension liability was approximately \$5,260,000 greater with a 7.25 percent investment rate of return compared to 7.5 percent investment rate of return.

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 the Road Commission's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2016 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	6.00 %
International equity	7.00
Domestic bonds	2.00
International bonds	2.50
Real estate	3.00

Road Commission for Oakland County

Notes to Financial Statements September 30, 2017

Note 11 - Defined Benefit Pension Plan (Continued)

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 (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1 Percent Decrease (6.25%)	Current Discount Rate (7.25%)	1 Percent Increase (8.25%)
Net pension liability of the Road Commission	\$ 69,759,323	\$ 45,492,165	\$ 24,781,729

Note 12 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at September 30, 2017, net of estimated revenue from federal aid and contributions from state and local participants, total approximately \$40,485,000. The total remaining cost of these uncompleted projects will exceed the above-estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will approximate \$6.7 million.

Required Supplemental Information

Road Commission for Oakland County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 78,171,200	\$ 80,204,389	\$ 85,055,044	\$ 4,850,655
Other state sources	10,400,000	14,554,695	11,897,723	(2,656,972)
Federal sources	24,950,000	35,290,568	28,061,302	(7,229,266)
Revenue from county and local governments	10,048,177	13,838,543	10,897,371	(2,941,172)
Interest on investments	400,000	400,000	471,808	71,808
Fees and other revenue	<u>2,166,323</u>	<u>2,166,323</u>	<u>2,363,837</u>	<u>197,514</u>
Total revenue	126,135,700	146,454,518	138,747,085	(7,707,433)
Expenditures				
General administration:				
Board of County Road Commissioners	143,428	162,628	155,378	7,250
Managing director	805,238	830,238	780,376	49,862
Planning and environmental concerns	1,371,855	1,542,662	1,181,302	361,360
Customer services	1,023,921	1,181,752	1,171,861	9,891
Finance department	979,869	998,103	927,975	70,128
Legal department	580,719	642,512	638,254	4,258
Human resources department	<u>1,324,959</u>	<u>1,399,027</u>	<u>1,204,445</u>	<u>194,582</u>
Total general administration	6,229,989	6,756,922	6,059,591	697,331
Central operations	10,611,823	11,296,279	9,656,158	1,640,121
Engineering department	4,522,888	4,711,868	4,574,582	137,286
Traffic department	11,191,708	14,445,386	10,002,180	4,443,206
Maintenance department	29,479,038	37,036,199	31,324,004	5,712,195
Nondepartmental	<u>25,875,254</u>	<u>26,375,254</u>	<u>22,884,207</u>	<u>3,491,047</u>
Total expenditures before project expenditures	87,910,700	100,621,908	84,500,722	16,121,186
Project expenditures:				
Road improvement program and construction	38,300,000	57,957,871	44,940,983	13,016,888
Signals	<u>2,925,000</u>	<u>4,693,775</u>	<u>2,713,475</u>	<u>1,980,300</u>
Total project expenditures	<u>41,225,000</u>	<u>62,651,646</u>	<u>47,654,458</u>	<u>14,997,188</u>
Total expenditures	<u>129,135,700</u>	<u>163,273,554</u>	<u>132,155,180</u>	<u>31,118,374</u>
Net Change in Fund Balance	(3,000,000)	(16,819,036)	6,591,905	\$ 23,410,941
Fund Balance - October 1, 2016	<u>54,508,002</u>	<u>54,508,002</u>	<u>54,508,002</u>	
Fund Balance - September 30, 2017	<u>\$ 51,508,002</u>	<u>\$ 37,688,966</u>	<u>\$ 61,099,907</u>	

Road Commission for Oakland County

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Last Three Fiscal Years

	Calendar 2016 (measurement date)	Calendar 2015 (measurement date)	Calendar 2014 (measurement date)
Total Pension Liability			
Service cost	\$ 2,989,130	\$ 3,051,003	\$ 3,155,013
Interest	16,164,956	15,808,776	14,514,850
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(3,883,527)	130,100	-
Changes in assumptions	5,264,846	-	13,599,393
Benefit payments, including refunds	(14,330,639)	(14,045,521)	(13,864,197)
Net Change in Total Pension Liability	6,204,766	4,944,358	17,405,059
Total Pension Liability - Beginning of year	221,235,346	216,290,988	198,885,929
Total Pension Liability - End of year	\$ 227,440,112	\$ 221,235,346	\$ 216,290,988
Plan Fiduciary Net Position			
Contributions - Employer	\$ 5,125,005	\$ 4,775,031	\$ 4,550,666
Contributions - Member	238,026	152,174	69,290
Net investment income	12,627,730	(2,390,637)	9,222,182
Administrative expenses	-	-	-
Benefit payments, including refunds	(14,330,639)	(14,045,521)	(13,864,197)
Other	-	32,952	68,663
Net Change in Plan Fiduciary Net Position	3,660,122	(11,476,001)	46,604
Plan Fiduciary Net Position - Beginning of year	178,287,825	189,763,826	189,717,222
Plan Fiduciary Net Position - End of year	\$ 181,947,947	\$ 178,287,825	\$ 189,763,826
Road Commission's Net Pension Liability	\$ 45,492,165	\$ 42,947,521	\$ 26,527,162
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	80.00 %	80.59 %	87.74 %
Covered Employee Payroll	\$ 25,812,871	\$ 25,746,863	\$ 23,992,497
Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll	176.2 %	166.8 %	110.6 %

Road Commission for Oakland County

Required Supplemental Information Schedule of Retirement System Investment Returns Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return - Net of investment expense	7.3 %	(1.3)%	5.0 %

Road Commission for Oakland County

Required Supplemental Information Schedule of Retirement System Contributions Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 4,552,404	\$ 4,673,005	\$ 4,695,098	\$ 4,541,767	\$ 4,039,343	\$ 3,609,303	\$ 4,018,817	\$ 3,603,793	\$ 2,664,500	\$ 3,320,000
Contributions in relation to the actuarially determined contribution	5,549,161	5,032,209	4,721,207	4,500,000	4,500,000	4,500,000	3,885,303	4,500,000	2,864,200	3,320,000
Contribution (Excess) Deficiency	\$ (996,757)	\$ (359,204)	\$ (26,109)	\$ 41,767	\$ (460,657)	\$ (890,697)	\$ 133,514	\$ 896,207	\$ (199,700)	\$ -
Covered Employee Payroll	\$ 25,249,051	\$ 24,262,746	\$ 24,377,458	\$ 23,929,227	\$ 23,746,871	\$ 22,901,670	\$ 25,761,648	\$ 25,631,529	\$ 28,264,638	\$ 27,791,451
Contributions as a Percentage of Covered Employee Payroll	22.0 %	20.7 %	19.4 %	18.8 %	18.9 %	19.6 %	15.1 %	17.6 %	10.1 %	11.9 %

Notes to Schedule of Retirement System Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution amounts are calculated as of December 31 each year, which is nine months prior to the beginning of the employer's fiscal year in which contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	27 years (closed)
Asset valuation method	Five-year smoothed market
Inflation	2.75 percent
Salary increases	3.25 percent to 4.75 percent including inflation
Investment rate of return	7.5 percent - Net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Healthy Annuities 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.
Other information	The economic assumptions used to develop the December 31, 2016 total pension liability include adopted by the board pursuant to the 2016 assumption study

Road Commission for Oakland County

Required Supplemental Information Schedule of Funding Progress Other Postemployment Benefit Plan Year Ended September 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/10	\$ 17,831,624	\$ 136,635,101	\$ 118,803,477	13.1 %	\$ 26,377,984	450.4 %
12/31/12	20,855,271	141,817,626	120,962,355	14.7	24,164,524	500.6
12/31/14	26,319,715	171,533,944	145,214,229	15.3	23,047,528	630.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed
9/30/15	12/31/12	\$ 13,592,423	48.0 %
9/30/16	12/31/14	13,556,403	65.5
9/30/17	12/31/14	14,032,898	61.4

Road Commission for Oakland County

Note to Required Supplemental Information Year Ended September 30, 2017

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

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

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

The Road Commission follows 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, 2017 is approximately \$30,250,000. During the current year, the budget was amended in a legally permissible manner.

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

Other Supplemental Information

Road Commission for Oakland County

Other Supplemental Information Budgetary Comparison Schedule Subdivision Improvement Fund Year Ended September 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Special assessment revenue	\$ 3,175,000	\$ 3,175,000	\$ 2,331,731	\$ (843,269)
Interest	<u>250,000</u>	<u>250,000</u>	<u>289,799</u>	<u>39,799</u>
Total revenue	3,425,000	3,425,000	2,621,530	(803,470)
Expenditures				
Debt service	1,104,333	-	-	-
Project expenditures - Road improvement program and construction	<u>4,800,000</u>	<u>2,800,000</u>	<u>1,960,594</u>	<u>839,406</u>
Total expenditures	<u>5,904,333</u>	<u>2,800,000</u>	<u>1,960,594</u>	<u>839,406</u>
Excess Revenue (Under) Over Expenditures	(2,479,333)	625,000	660,936	35,936
Other Financing Sources - Proceeds from the issuance of bonds	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	2,520,667	625,000	660,936	<u>\$ 35,936</u>
Fund Balance - October 1, 2016	<u>7,529,355</u>	<u>7,529,355</u>	<u>7,529,355</u>	
Fund Balance - September 30, 2017	<u>\$ 10,050,022</u>	<u>\$ 8,154,355</u>	<u>\$ 8,190,291</u>	