

Road Commission of Kalamazoo County

**Financial Report
with Supplemental Information
December 31, 2015**

Road Commission of Kalamazoo County

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Independent Auditor's Report

To the Board of County Road Commissioners
Road Commission of Kalamazoo County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the Road Fund of the Road Commission of Kalamazoo County (the "Road Commission"), a component unit of Kalamazoo County, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the Road Commission of Kalamazoo 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 opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the Road Fund of the Road Commission of Kalamazoo County as of December 31, 2015 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of County Road Commissioners
Road Commission of Kalamazoo County

Emphasis of Matter

As discussed in Note 10 to the basic financial statements, in 2015, the Road Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pension plans provided to the employees of governmental employers through pension plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule - Road Fund, schedule of the Road Commission's proportionate share of the net pension liability, schedule of pension contributions, and other postemployment benefit plan schedule of funding progress 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 of Kalamazoo County's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, 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 other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

May 18, 2016

Road Commission of Kalamazoo County

Management's Discussion and Analysis

The Road Commission of Kalamazoo County (the "Road Commission") is a special purpose government engaged in a single government program of road and bridge maintenance, preservation, and construction for the County of Kalamazoo, Michigan. The Road Commission of Kalamazoo County was established by a vote of the citizens of Kalamazoo County in 1909.

The following financial statements are presented in accordance with prescribed methods of accounting. The financial statements related to the governmental fund are prepared in modified accrual format, commonly referred to as governmental fund level accounting. The full accrual method of accounting focuses on the entity as a whole (the Road Commission's net position) and is referred to as government-wide level accounting. The significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and the infrastructure (roads, bridges, and signals). Capital assets and infrastructure costs are expensed when incurred in the governmental fund statements. In the government-wide statements, these costs are capitalized and recognized over their estimated useful lives through depreciation expense.

With respect to the statements of net position and activities, the fund-level financial statements and the government-wide financial statements have been combined and are presented on the same page.

Management's Discussion and Analysis

This section of the Road Commission of Kalamazoo County's annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year ended December 31, 2015. Please read it in conjunction with the Road Commission's basic financial statements, which follow this section.

Using this Annual Report

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information.

The basic financial statements are the governmental fund balance sheet/statement of net position, statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities, and notes to the financial statements. The notes to the financial statements are an integral part of the document that explain some of the information in the financial statements and provide more detailed data.

Additional data and schedules that further explain and support the information in the financial statements are provided in both the required supplemental information and the other supplemental information.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

Financial Analysis of the Road Commission as a Whole

The following tables provide condensed information about the Road Commission as of December 31, 2015 and 2014 and for the years then ended. Over time, increases or decreases in the Road Commission's net position may serve as an indicator of the overall financial position. To assess the overall health of the Road Commission, additional nonfinancial factors need to be considered, such as the condition of the roads in our jurisdiction and changes in the laws related to gas taxes and their distribution.

Condensed Statement of Net Position

	December 31	
	2015	2014
Assets		
Other assets	\$ 18,526,230	\$ 9,766,529
Capital assets	<u>122,649,871</u>	<u>119,075,290</u>
Total assets	141,176,101	128,841,819
Deferred Outflows of Resources	588,867	-
Liabilities - Current liabilities	1,525,856	1,218,028
Net Position		
Unrestricted net position	10,449,584	8,548,501
Restricted net position	7,139,657	-
Net investment in capital assets	<u>122,649,871</u>	<u>119,075,290</u>
Total net position	<u>\$ 140,239,112</u>	<u>\$ 127,623,791</u>

The Road Commission's net position increased 10.1 percent from a year ago - increasing from \$127,623,791 to \$140,239,112. Approximately \$7 million of this increase was due to the implementation of GASB Statement No. 68, which was implemented retroactively to January 1, 2015. Note that the restricted net position above is a result of this new implementation.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Year Ended December 31	
	2015	2014
Revenue		
Intergovernmental	\$ 22,424,301	\$ 22,253,870
Other contributions and service charges	730,200	345,669
Other	113,064	99,826
Total revenue	23,267,565	22,699,365
Expenses		
Primary maintenance	3,654,920	3,463,841
Local maintenance	4,936,876	4,796,297
Depreciation	8,898,449	8,083,870
Administrative	561,496	1,004,964
Equipment rental and other charges	(560,349)	(497,872)
Non-road-related projects	126,527	143,981
Total expenses	17,617,919	16,995,081
Change in Net Position	<u>\$ 5,649,646</u>	<u>\$ 5,704,284</u>

The Road Commission's revenue for the year ended December 31, 2015 increased approximately 2.5 percent from the prior year. This increase was due principally to an increase in federal, state, and local government participation in road improvement projects and a one-time funding of approximately \$1.7 million from the State of Michigan under Public Act (PA) 252 and 84. Total expenses for the year increased by approximately 3.7 percent due to greater depreciation expense and an increase in road improvement projects.

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 the original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

The Road Commission amended its 2015 budget during the year. The final budget for revenue was approximately \$4 million more than the original budget, primarily due to an increase in township revenue from local road improvement projects. Our actual revenue ended the year higher than expected by approximately \$576,000, primarily due to the Road Commission receiving more federal and state revenue than anticipated. The final budget for expenditures was approximately \$3 million more than the original budget due to more than anticipated local road improvement expenditures. Actual expenditures at the end of the year were approximately \$67,000 more than the final amended budget, primarily due to the Road Commission spending more on preservation and structural improvements on primary roads.

Capital Assets

The Road Commission ended the year with an increase in net capital assets amounting to \$3,574,581. Infrastructure continues to be the largest asset class and is funded by federal, state, and local contributions, as well as by Road Commission revenue. Depreciation of capital assets is provided for annually over estimated future lives.

	December 31	
	2015	2014
Land and improvements	\$ 22,278,880	\$ 21,959,065
Buildings and improvements	4,363,368	4,240,874
Land improvements	402,561	-
Road equipment	10,313,506	8,802,624
Other equipment	804,849	641,306
Infrastructure and improvements	<u>176,409,779</u>	<u>175,806,657</u>
Total capital assets	214,572,943	211,450,526
Accumulated depreciation	<u>(91,923,072)</u>	<u>(92,375,236)</u>
Net capital assets	<u>\$ 122,649,871</u>	<u>\$ 119,075,290</u>

Additional information regarding capital assets is located in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

Michigan has begun to move out of its longest sustained economic downturn since the Great Depression, yet Michigan roads continue to deteriorate. Michigan's roads are vital to business and economic development, to families and schools, to public safety and health care, to agriculture and tourism, and to every aspect of our lives. Congestion, poor pavement condition, and crashes cost Michigan drivers and business in wasted fuel, lost time and productivity, vehicle maintenance costs, and more.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

The primary source of revenue of Michigan County Road Agencies comes from the Michigan Transportation Fund (MTF). All state fuel taxes, vehicle registration fees, and other transportation-related fees are deposited into the MTF and distributed according to a formula established in PA 51 of 1951. The legislature last increased the gasoline tax in 1997 from 15 cents per gallon to 19 cents per gallon. The tax on diesel fuel was not increased at that time and remains at 15 cents. These fuel taxes are "flat" taxes, and do not increase with the price of gas or diesel or with inflation. Also, a combination of more fuel-efficient vehicles and motorists changing driving habits and purchasing less fuel have eroded the power of fuel taxes which continues to negatively impact the funding. Many of the costs associated with critical road maintenance activities, including fuel, asphalt, and equipment, have increased far faster than the consumer rate of inflation, while funding continues to lag behind. Our Road Commission has optimized the efficiency of operations under the existing revenue and continues to ensure we are in the process of continuous improvement.

State Transportation Funding - On November 10, 2015 Governor Snyder signed a package of legislative transportation funding bills (Michigan Revenue Package) designed to generate \$1.2 billion in new Michigan Transportation Fund (MTF) revenue by 2021. Approximately half of this total will come from increases in fuel taxes (\$400 million) and vehicle registration fees (\$200 million) starting in 2017. Then, beginning in 2019, increasing amounts of general fund dollars, reaching \$600 million in 2021, will be transferred to the MTF to be further distributed to the various road agencies in the state. Lastly, the fuel taxes will be indexed to inflation, using the Consumer Price Index (CPI), beginning January 1, 2022.

Federal Highway Funding - On December 4, 2015, President Obama signed the Fixing America's Surface Transportation (FAST) Act, which provides funding for transportation programs through 2020. This act includes \$70 billion in new funding to be transferred from the federal general fund into the Highway Trust Fund through 2020. Michigan expects to see an increase of approximately five percent in federal transportation dollars over the next five years.

The Board of County Road Commissioners of the County of Kalamazoo, management, and staff of the Road Commission continue to work diligently to be efficient and keep our expenses low, look for opportunities to partner with other agencies in our area and region, and access all available dollars to maintain the roads and infrastructure within Kalamazoo County.

Contacting the Road Commission's Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to Road Commission of Kalamazoo County, 3801 East Kilgore Road, Kalamazoo, MI 49001, or visit our website at www.kalamazooountyroads.com.

Road Commission of Kalamazoo County

Statement of Net Position/Governmental Funds Balance Sheet December 31, 2015

	Modified Accrual		Statement of Net Position
	Basis		
	Road Fund	Adjustments	
Assets			
Cash (Note 4)	\$ 5,650,977	\$ -	\$ 5,650,977
Receivables:			
Special assessments receivable	5,626	-	5,626
Due from state transportation department	3,818,086	-	3,818,086
Due on county road agreements	188,600	-	188,600
Sundry accounts receivable	235,099	-	235,099
Inventory	954,858	-	954,858
Prepaid expenses	157,796	-	157,796
Advances	86,108	-	86,108
Prepaid construction	36,124	-	36,124
Restricted cash (Note 4)	561,287	-	561,287
Net pension asset (Note 6)	-	6,550,790	6,550,790
Net OPEB asset (Note 7)	-	280,879	280,879
Capital assets (Note 5):			
Assets not subject to depreciation	-	22,278,880	22,278,880
Assets subject to depreciation	-	100,370,991	100,370,991
Total assets	11,694,561	129,481,540	141,176,101
Deferred Outflows of Resources (Note 6)	-	588,867	588,867
Total assets and deferred outflows	<u>\$ 11,694,561</u>	130,070,407	141,764,968
Liabilities			
Accounts payable	\$ 654,827	-	654,827
Accrued liabilities and other	56,782	106,931	163,713
Advances	707,316	-	707,316
Total liabilities	1,418,925	106,931	1,525,856
Deferred Inflows of Resources - Unavailable revenue	1,098,025	(1,098,025)	-
Equity - Fund balance			
Nonspendable:			
Inventory	954,858	(954,858)	-
Prepays	193,920	(193,920)	-
Unassigned	8,028,833	(8,028,833)	-
Total fund balance	9,177,611	(9,177,611)	-
Total liabilities, deferred inflows, resources, and fund balance	<u>\$ 11,694,561</u>		
Net Position			
Net investment in capital assets		122,649,871	122,649,871
Restricted		7,139,657	7,139,657
Unrestricted		10,449,584	10,449,584
Total net position		<u>\$ 140,239,112</u>	<u>\$ 140,239,112</u>

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

Road Commission of Kalamazoo County

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Year Ended December 31, 2015

	Modified Accrual Basis		Statement of Activities
	Road Fund	Adjustments	
Revenue			
Michigan Transportation Fund	\$ 13,876,724	\$ -	\$ 13,876,724
Federal grants	1,392,565	-	1,392,565
State funding	1,947,416	485,103	2,432,519
Township and other governmental contributions	4,722,493	-	4,722,493
Other contributions and service charges	180,047	550,153	730,200
Other revenue	122,135	(9,071)	113,064
Total revenue	22,241,380	1,026,185	23,267,565
Expenditures/Expenses			
Primary preservation	5,446,345	(5,446,345)	-
Primary maintenance	3,654,920	-	3,654,920
Local preservation	3,953,671	(3,953,671)	-
Local maintenance	4,936,876	-	4,936,876
Administrative	1,026,948	(465,452)	561,496
Capital outlay	2,526,927	(2,526,927)	-
Less equipment rental and other charged to other expenditures	(560,349)	-	(560,349)
Depreciation expense	-	8,898,449	8,898,449
Non-road-related projects	126,527	-	126,527
Total expenditures/expenses	21,111,865	(3,493,946)	17,617,919
Net Change in Fund Balances/Net Position	1,129,515	4,520,131	5,649,646
Fund Balances/Net Position - Beginning of year (as restated)	8,048,096	126,541,370	134,589,466
Fund Balances/Net Position - End of Year	\$ 9,177,611	\$ 131,061,501	\$ 140,239,112

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Road Commission of Kalamazoo County:

Reporting Entity

The Road Commission of Kalamazoo County (the "Road Commission") is a special purpose governmental agency engaged in a single government program of road and bridge maintenance, preservation, and construction for the County of Kalamazoo, Michigan. The Road Commission is the jurisdictional authority over all public roads lying outside the incorporated cities and villages within Kalamazoo County, exclusive of any state trunkline highway. The Road Commission is governed by a five-member Board of County Road Commissioners of the County of Kalamazoo appointed by the County of Kalamazoo Board of Commissioners. The Road Commission's financial statements will be included in the basic financial statements of the County of Kalamazoo, Michigan as a discretely presented component unit for financial reporting purposes.

Accounting and Reporting Principles

The Road Commission follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual Road Fund column presents the activity on the modified accrual basis of accounting, as discussed below, which demonstrates accountability for how the current resources have been spent. The government-wide column is presented on the economic resources measurement focus and the full accrual basis of accounting, in order to measure the cost of providing government services, and the extent to which constituents have paid the full cost of government services.

On the full 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.

Fund Accounting

The Road Commission accounts for its activities in one major governmental fund, the Road Fund. The Road Fund is used to account for all activities of the Road Commission.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Road Fund uses the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Road Commission has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Road Commission considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state gas and weight tax revenue, and revenue related to construction projects and inspection work orders. Conversely, special assessments and a portion of state funding related to Public Act (PA) 84 of 2015 will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

Specific Balances and Transactions

Cash - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Restricted cash includes a deposit account restricted by contractual terms for a specific construction project and is associated with an equal advances liability.

Due from State Transportation Department and Due on County Road Agreements - Due from state transportation department consists of amounts due from the Michigan Transportation Fund for state-shared revenue. Due on county road agreements consists of receivables from townships, cities, and villages for their share of construction projects.

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

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note I - Summary of Significant Accounting Policies (Continued)

Prepaid Construction - Prepaid construction results when progress payments made to the Michigan Department of Transportation are in excess of the total expenses incurred for projects on a percentage-of-completion basis. The payments will be applied to projects in future years as costs are incurred.

Capital Assets - Capital assets, which include property, buildings, 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 \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation, with the related revenue recorded as other contributions.

Land is not subject to depreciation, road equipment is depreciated using the "sum of the years' digits" method, and all other capital asset classes are depreciated using the straight-line method, over the following useful lives:

<u>Capital Asset Class</u>	<u>Lives in Years</u>
Infrastructure	5-50
Buildings	25-50
Road equipment	5-8
Other equipment	4-20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has one item that qualifies for reporting in this category at December 31, 2015, which is the deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources results from two transactions: the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings and the change in assumptions related to economic and demographic factors.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and 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. The Road Commission has one item that qualifies for reporting in this category. The deferred inflows of resources related to unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: state contributions and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of the Road Fund is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Road Commission itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Road Commission's highest level of decision-making authority. The Road Commission's Board of County Road Commissioners is the highest level of decision-making authority for the Road Commission that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Road Commission's Board of County Road Commissioners has by resolution authorized the managing director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In January 2014, the Road Commission set a goal to maintain a minimum fund balance of 40 percent of Michigan Transportation Fund Revenue in the Road Fund. This is deemed to be the prudent amount to maintain the Road Commission's ability to meet obligations as they come due throughout the year.

Pension - The Road Commission offers a defined benefit pension plan to its employees through the Kalamazoo County Employees' Retirement System. The Road Commission records a net pension asset for proportionate share of the aggregate net pension asset. For the purpose of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Road Commission's portion of the Kalamazoo County Employees' Retirement System and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note I - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The Road Commission offers 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 or healthcare costs are incurred. 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.

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. There is no liability for unpaid accumulated sick leave since the Road Commission does not have a policy to pay any amounts when employees separate from service with the Road Commission, except at retirement for non-bargaining employees. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the Road Fund only for employee terminations as of year end.

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.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

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	\$	9,177,611
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		122,649,871
Other long-term assets, such as net other post-employment benefit assets, do not present current financial resources and are not reported as fund assets		280,879
Special assessment and state funding receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		1,098,025
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		(106,931)
Net pension assets do not present a claim on current financial resources and are not reported in the funds		<u>7,139,657</u>
Net Position of Governmental Activities	\$	<u>140,239,112</u>

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

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

Net Change in Fund Balances - Total Governmental Funds	\$	1,129,515
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		12,477,096
Depreciation expense		(8,898,449)
Net book value of assets disposed of		(4,066)
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		480,098
Change in the net pension asset and related deferrals is not reported in the governmental fund		173,982
Change in net other postemployment benefit assets is not reported in the governmental fund		280,879
Change in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment		10,591
Change in Net Position of Governmental Activities	\$	5,649,646

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 3 - Stewardship, Compliance, and Accountability

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:

- Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

Pursuant to this requirement, the Road Commission follows these procedures:

- The managing director submits a proposed operating budget for the fiscal year to the Board of County Road Commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the Board of County Road Commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented may be amended throughout the year by an official action of the board.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations - The law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. During the year ended December 31, 2015, the Road Commission had expenditure budget overruns as listed in the chart below. These overruns were due to unanticipated expense and revenue activity from MDOT funded projects.

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Preservation and structural improvements - Primary road system	\$ 5,991,000	\$ 5,400,000	\$ 5,751,302	\$ (351,302)
Work performed for others	458,000	173,000	188,855	(15,855)

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (PA 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 three banks for the deposit of its funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

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 approximately \$6,200,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 5 - Capital Assets

Capital asset activity of the Road Commission was as follows:

Governmental Activities	Balance January 1, 2015	Additions	Retirements/ Transfers	Balance December 31, 2015
Capital assets not being depreciated:				
Land and improvements	\$ 705,935	\$ -	\$ (230,336)	\$ 475,599
Infrastructure and improvements (in progress)	21,253,130	550,151	-	21,803,281
Subtotal	21,959,065	550,151	(230,336)	22,278,880
Capital assets being depreciated:				
Buildings and improvements	4,240,874	122,494	-	4,363,368
Land improvements	-	172,225	230,336	402,561
Road equipment	8,802,624	2,063,767	(552,885)	10,313,506
Other equipment	641,306	168,443	(4,900)	804,849
Infrastructure and improvements	175,806,657	9,400,016	(8,796,894)	176,409,779
Subtotal	189,491,461	11,926,945	(9,124,343)	192,294,063
Accumulated depreciation:				
Buildings and improvements	2,466,719	87,848	-	2,554,567
Land improvements	-	77,950	-	77,950
Road equipment	6,991,399	781,785	(548,819)	7,224,365
Other equipment	505,216	47,042	(4,900)	547,358
Infrastructure and improvements	82,411,902	7,903,824	(8,796,894)	81,518,832
Subtotal	92,375,236	8,898,449	(9,350,613)	91,923,072
Net capital assets being depreciated	97,116,225	3,028,496	226,270	100,370,991
Net capital assets	\$ 119,075,290	\$ 3,578,647	\$ (4,066)	\$ 122,649,871

Commitments - The Road Commission has active projects at year end. The projects include truck builds and components with contract amounts of approximately \$598,000 and construction and engineering with contract amounts of approximately \$777,000.

Note 6 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Kalamazoo County Employees' Retirement Plan (the "Plan"), a public employee retirement system which is a defined benefit pension plan administered by the Kalamazoo County Employees' Retirement System (the "System") that covers certain employees of Kalamazoo County, the Road Commission of Kalamazoo County, and the Kalamazoo County Mental Health Authority. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained by writing to the System at 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384 8111.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 6 - Defined Benefit Pension Plan (Continued)

Benefits Provided - The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Board of County Road Commissioners of the County of Kalamazoo establishes and amends the benefit provisions of the participants in the Plan.

Retirement benefits for employees are calculated as a percent of the employee's final average salary (FAS) times the employee's years of service, 2.1 percent for Nonunion and 2.2 percent for Teamsters State County and Municipal Workers Local 214. The FAS is calculated using the highest five consecutive years out of the last 10 years, some lump sums included. Normal retirement age is 60 with eight or more years of service or age 55 with 25 or more years of service. For members retiring after age 60 with at least eight years of service, the amount will be calculated using the greater of a) the benefit based on service, FAS, and multiplier, or b) the actuarial equivalent of the benefit accrued at age 60. The maximum employer-financed portion is 75 percent of final average salary.

Early retirement age is 55 with eight or more years of service. The amount is then computed as a regular retirement but reduced 4/10 of 1 percent (0.004) for each month of age preceding age 60.

Employees are eligible for nonduty disability benefits after 10 or more years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but with a minimum benefit of 15 percent of FAS.

Employees are eligible for death benefits after 10 or more years of service, or age 60 with eight years of service. The amount is computed as a regular retirement but actuarially reduced in accordance with a 100 percent joint and survivor election.

Contributions - The Road Commission is required to contribute at an actuarially determined rate; however, no contribution was required in the current year. The contribution requirements are established by the System based on an actuarial valuation. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the Plan's contribution program. Plan members are currently not required to contribute to the System.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 6 - Defined Benefit Pension Plan (Continued)

Net Pension Liability, Deferrals, and Pension Expense

At December 31, 2015, the Road Commission reported an asset of \$6,550,790 for its proportionate share of the net pension asset. The plan's net pension asset was measured as of December 31, 2014. The total pension liability asset was determined by an actuarial valuation as of that date. The Road Commission's proportionate share of the System's net pension asset was determined based on the Road Commission's relative percentage of the overfunded actuarial accrued liability as determined in their separately issued actuarial valuation in relation to the overfunded accrued liability for the Plan as a whole.

For the year ended December 31, 2015, the Road Commission recognized pension expense (recovery) of \$(173,982). At December 31, 2015, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Changes in assumptions	\$ 393,342
Net difference between projected and actual earnings on pension plan investments	<u>195,525</u>
Total	<u>\$ 588,867</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 151,713
2017	151,713
2018	151,713
2019	133,728

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% - 3.5%	Price 2.75%; wage 3.5%
Salary increases	3.5% - 7.23%	Average, including inflation at 3.5%
Investment rate of return	7.50	Net of pension plan investment expense, including inflation at 3.5%

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables,

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 6 - Defined Benefit Pension Plan (Continued)

projected 20 years with U.S. Projection Scale BB.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent.

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. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2014 for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Small Cap (Manager 1)	5 %	6.00 %
U.S. Small Cap (Manager 2)	10	6.00
International Developed Equity	10	5.00
U.S. Large Cap (Manager 1)	30	5.00
U.S. Large Cap (Manager 2)	5	5.00
Emerging Markets	10	6.75
Domestic Fixed Income	25	0.75
Real Estate (Manager 1)	2.50	4.00
Real Estate (Manager 2)	3.75	4.00

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 6 - Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension asset of the Road Commission, calculated using the discount rate of 7.50 percent, as well as what the Road Commission's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate.

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net pension asset	\$ 3,410,476	\$ 6,550,790	\$ 9,184,319

Pension Plan Fiduciary Net Position - Detailed information about the System's fiduciary net position is available in the Kalamazoo County Employees' Retirement System's separately issued financial report. The Road Commission's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 7 - Other Postemployment Benefits

Plan Description - The Road Commission provides medical benefits to eligible retired Road Commission employees through the Kalamazoo County Retiree Medical Benefits Plan (the "Plan"), an agent multiple employer plan. The Plan is affiliated with the Kalamazoo County Retiree Health Trust (the "Trust"), which is exempt from tax under Section 115 of the Internal Revenue Code of 1986.

Benefit provisions of the Plan are established and amended by the Kalamazoo County Board of Commissioners. The Plan issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by calling the Kalamazoo County Employees' Retirement System at (269) 384-8111.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 7 - Other Postemployment Benefits (Continued)

Funding Policy - The Road Commission is required to contribute at a percentage of covered payroll as determined by the Plan; the required contribution for the year ended December 31, 2015 was \$130,407 or 7.66 percent. The actual contribution made by the Road Commission during the year ended December 31, 2015 was \$215,529. The contribution requirements are established by the Plan based on an actuarial valuation. Road Commission retirees pay 20 percent of the cost of their health insurance premiums. This percentage is established and may be amended by the Road Commission. Retiree healthcare benefits are available to Road Commission retirees only and not available to nonunion employees hired on or after January 1, 2013 and Teamsters State County and Municipal Workers Local 214 employees hired on or before January 1, 2017.

Funding Progress - For the year ended December 31, 2015, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2013. 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 cost 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 (recommended)	\$ 130,407
Interest on the prior year's net OPEB asset	(14,421)
Less adjustment to the annual required contribution	<u>10,937</u>
Annual OPEB cost	126,923
Amounts contributed:	
Payments of current premiums	(130,407)
Advance funding	<u>(85,122)</u>
Increase in net OPEB asset	(88,606)
OPEB asset - Beginning of year	<u>(192,273)</u>
OPEB asset - End of year	<u>\$ (280,879)</u>

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 7 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed	Net OPEB Asset
12/31/15	12/31/13	\$ 130,407	100.0	\$ (280,879)
12/31/14	12/31/13	158,807	100.0	(192,273)
12/31/13	12/31/11	169,453	100.0	(173,205)

* The required contribution is expressed to the Road Commission as a percentage of payroll.

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/13	\$ 1,562,405	\$ 3,239,807	\$ 1,677,402	48.2	\$ 2,200,685	76.2
12/31/11	1,435,680	3,956,241	2,520,561	36.3	2,483,917	101.5
12/31/09	1,233,280	4,936,576	3,703,296	25.0	2,970,142	124.7

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.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 7 - Other Postemployment Benefits (Continued)

In the December 31, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included are (a) a rate of return on investments of present and future assets of 7.50 percent, (b) projected salary increases of 3.50 percent to 8.23 percent per year, compounded annually, with 3.50 percent attributable to inflation, and (c) a healthcare cost trend rate of 9.00 percent. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2013 was 30 years.

Note 8 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-insurance Pool (MCRCSIP) for claims relating to property loss, torts, errors, and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MCRCSIP operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-insurance Fund (CRASIF) for workers' compensation claims. Member premiums are used to purchase workers' compensation insurance. As a member of CRASIF, the Road Commission is fully insured for workers' compensation claims incurred.

The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

The Road Commission offers a high-deductible health insurance plan with a Health Reimbursement Account (HRA). The HRA reimburses a certain level of medical expenses not covered by the high-deductible plan. The Road Commission is responsible for expenses up to the specified HRA plan limits.

Road Commission of Kalamazoo County

Notes to Financial Statements December 31, 2015

Note 9 - Upcoming Accounting Pronouncements

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Road Commission to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Kalamazoo County Retiree Medical Benefits Plan. 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 December 31, 2018. Proactive discussions with Kalamazoo County will be imperative during this implementation.

Note 10 - Change in Accounting

During the year, the Road Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension*. As a result, the government-wide statements now include an asset for the overfunded pension liability. Some of the changes in this net pension asset will be recognized immediately as part of the pension expense measurement and part will be deferred and recognized over future years. Refer to the pension note for further details.

As a result of implementing this statement, the beginning net position of governmental activities was restated to \$134,589,466 (increase of \$6,965,675).

Required Supplemental Information

Road Commission of Kalamazoo County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Michigan Transportation Fund - Primary Road Fund	\$ 10,184,000	\$ 10,412,000	\$ 10,518,407	\$ 106,407
Michigan Transportation Fund - Local Road Fund	3,216,000	3,288,000	3,358,317	70,317
Federal, state, and enhancement	2,200,700	1,385,000	1,702,769	317,769
State General Fund - PA 252	606,170	606,170	606,668	498
State General Fund - PA 84	-	1,092,864	1,092,872	8
Township projects	1,300,000	4,657,000	4,692,499	35,499
Township special assessments	50,000	5,000	5,005	5
Cities and other governmental	-	8,000	29,994	21,994
Interest	1,500	3,500	3,307	(193)
Other	155,000	270,000	293,870	23,870
Total revenue	17,713,370	21,727,534	22,303,708	576,174
Expenditures/Expenses				
Preservation and structural improvements - Primary road system	5,991,000	5,400,000	5,751,302	(351,302)
Preservation and structural improvements - Local road system	2,650,000	6,051,000	5,985,340	65,660
Routine and preventative maintenance - Primary road system	4,249,537	3,461,999	3,349,963	112,036
Routine and preventative maintenance - Local road system	3,220,482	3,021,000	2,905,207	115,793
Administrative	1,112,000	1,062,000	1,026,948	35,052
Capital outlay	1,161,000	2,551,854	2,526,927	24,927
Equipment rental and other charged to other expenditures	(825,000)	(614,000)	(560,349)	(53,651)
Work performed for others	458,000	173,000	188,855	(15,855)
Total expenditures/expenses	18,017,019	21,106,853	21,174,193	(67,340)
Excess of Revenue Over Expenditures	(303,649)	620,681	1,129,515	508,834
Fund Balance - Beginning of year	8,048,096	8,048,096	8,048,096	-
Fund Balance - End of year	\$ 7,744,447	\$ 8,668,777	\$ 9,177,611	\$ 508,834

Road Commission of Kalamazoo County

Note to Required Supplemental Information Year Ended December 31, 2015

The budgetary comparison schedule for the Road Fund is presented on the same basis of accounting used in preparing the adopted budget. The following is a reconciliation of the budgetary comparison schedule to the Road Fund (statement of governmental fund revenue, expenditures, and changes in fund balance):

	<u>Total Revenue</u>	<u>Total Expenditures</u>
Amounts per governmental fund revenue, expenditures, and changes in fund balance	\$ 22,241,380	\$ 21,111,865
Project performed on behalf of another governmental unit	<u>62,328</u>	<u>62,328</u>
Amounts per budgetary comparison schedule - Road Fund	<u>\$ 22,303,708</u>	<u>\$ 21,174,193</u>

Road Commission of Kalamazoo County

Required Supplemental Information Schedule of the Road Commission's Proportionate Share of the Net Pension Liability Kalamazoo County Employees' Retirement Plan

	<u>2014</u>
Road Commission's proportion of the net pension asset	15.2 %
Road Commission's proportionate share of the net pension asset	\$ 6,550,790
Road Commission's covered employee payroll	\$ 2,074,153
Road Commission's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Employee Payroll	315.8 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	153.1 %

Road Commission of Kalamazoo County

Required Supplemental Information Schedule of Pension Contributions Kalamazoo County Employees' Retirement Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-	-	-	-	-	-
Contribution Deficiency	\$ -									
Road Commission's Covered Employee Payroll	\$ 2,089,745	\$ 2,074,153	\$ 2,222,722	\$ 2,379,843	\$ 2,699,115	\$ 2,747,330	\$ 2,842,241	\$ 3,114,099	\$ 3,062,522	\$ 3,073,779
Contributions as a Percentage of Covered Employee Payroll	- %									

Road Commission of Kalamazoo County

Required Supplemental Information Other Postemployment Benefit Plan Schedule of Funding Progress Year Ended December 31, 2015

The schedule of funding progress for the other postemployment benefit 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
12/31/09	\$ 1,233,280	\$ 4,936,576	\$ 3,703,296	25.0 %	\$ 2,970,142	124.7 %
12/31/11	1,435,680	3,956,241	2,520,561	36.3	2,483,917	101.5
12/31/13	1,562,405	3,239,807	1,677,402	48.2	2,200,685	76.2

Other Supplemental Information

Kalamazoo County Road Commission

Analysis of Revenue, Expenditures, and Changes in Fund Balance - Road Fund Year Ended December 31, 2015

	Primary Roads	Local Roads	County Road Funds	Total
Revenue				
Michigan Transportation Fund:				
Engineering	\$ 7,562	\$ 2,438	\$ -	\$ 10,000
Snow removal	1,127	2,047	-	3,174
Urban road	1,769,798	542,420	-	2,312,218
Allocation	8,735,435	2,815,897	-	11,551,332
Total Michigan Transportation Fund	10,513,922	3,362,802	-	13,876,724
Economic Development Fund - Rural primary	24	-	-	24
Governmental funding:				
Federal	1,372,385	-	82,508	1,454,893
Local bridge	247,852	-	-	247,852
Township and other governmental contributions	31,757	4,612,679	106,649	4,751,085
Other contributions and charges for services	1,294,016	430,844	126,037	1,850,897
Total governmental funding	13,459,956	8,406,325	315,194	22,181,475
Other:				
Gain on equipment disposals	-	-	109,757	109,757
Special assessments	-	5,005	-	5,005
Interest earned	2,781	-	624	3,405
Total other	2,781	5,005	110,381	118,167
Total revenue	13,462,737	8,411,330	425,575	22,299,642
Expenditures				
Preservation and maintenance:				
Preservation - Structural improvements	5,446,345	3,953,671	-	9,400,016
Maintenance	3,654,920	4,936,876	-	8,591,796
Total preservation and maintenance	9,101,265	8,890,547	-	17,991,812
Other:				
Administrative expenses	519,488	507,460	-	1,026,948
Net equipment expenses	165,502	262,531	6,242	434,275
Net capital outlay	1,750,061	-	(221,824)	1,528,237
Other - Services for other units	-	-	188,855	188,855
Total other	2,435,051	769,991	(26,727)	3,178,315
Total expenditures	11,536,316	9,660,538	(26,727)	21,170,127
Excess of Revenue Over (Under) Expenditures	1,926,421	(1,249,209)	452,302	1,129,515
Other Financing (Uses) Sources - Optional transfers	(1,249,209)	1,249,209	-	-
Net Change in Fund Balance	677,212	-	452,302	1,129,515
Fund Balance - Beginning of year	6,773,645	-	1,274,451	8,048,096
Fund Balance - End of year	<u>\$ 7,450,857</u>	<u>\$ -</u>	<u>\$ 1,726,753</u>	<u>\$ 9,177,611</u>

Kalamazoo County Road Commission

Note to Other Supplemental Information Year Ended December 31, 2015

The following is a reconciliation of the analysis of changes in fund balance - Road Fund schedule to the governmental fund (statement of governmental fund revenue, expenditures, and changes in fund balance):

	Road Fund	
	Total Revenue	Total Expenditures
Amounts per governmental fund revenue, expenditures, and changes in fund balance	\$ 22,241,380	\$ 21,111,865
Gain on disposal of capital assets	(4,066)	(4,066)
Project performed on behalf of another governmental unit	<u>62,328</u>	<u>62,328</u>
Amount per analysis of changes in Road Fund balance	<u>\$ 22,299,642</u>	<u>\$ 21,170,127</u>