
Road Commission of Kalamazoo County

(a component unit of the County of Kalamazoo, Michigan)

Financial Report
with Supplemental Information
December 31, 2017

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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, Michigan, as of and for the year ended December 31, 2017 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 opinions.

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, 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.

Emphasis of Matter

As discussed in Note 10 to the basic financial statements, during the year ended December 31, 2017, the Road Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of implementing this pronouncement, the Road Commission's net OPEB liability has been recognized on the government-wide statements and the 2016 financial statements have been restated. Our opinion is not modified with respect to this matter.

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

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, 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 an opinion 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

June 20, 2018

Road Commission of Kalamazoo County

Management's Discussion and Analysis

As management of the Road Commission of Kalamazoo County (the "Road Commission"), we offer readers this narrative overview and analysis of the financial activities for the year ended December 31, 2017.

The Road Commission is a special purpose government engaged in a single government program of road, bridge, and right-of-way maintenance, preservation, and construction for the County of Kalamazoo, Michigan (the "County"). 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.

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.

Government-wide Overall Financial Analysis

Net position over time may serve as a useful indicator of a government's financial position. In the case of the Road Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$143,116,503 at the close of the most recent fiscal year.

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 transportation funding and their distribution.

The following tables provide condensed information about the Road Commission as of December 31, 2017 and 2016 and for the years then ended.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

Road Commission's Net Position

	2017	2016
Assets		
Current and other assets	\$ 13,893,968	\$ 11,983,990
Capital assets	<u>134,188,660</u>	<u>129,378,496</u>
Total assets	148,082,628	141,362,486
Deferred Outflows of Resources	204,608	412,044
Liabilities - Current liabilities	2,792,941	2,392,438
Deferred Inflows of Resources	<u>2,377,792</u>	<u>2,142,317</u>
Net Position		
Net investment in capital assets	134,188,660	129,378,496
Unrestricted	<u>8,927,843</u>	<u>7,861,279</u>
Total net position	<u>\$ 143,116,503</u>	<u>\$ 137,239,775</u>

The Road Commission's net position increased 4.3 percent from a year ago - increasing from \$137,239,775 to \$143,116,503. This increase primarily relates to the investment of revenue dollars into infrastructure assets to be recognized into expense over a longer period of time, instead of during the year.

Road Commission's Changes in Net Position

	2017	2016
Revenue		
Intergovernmental	\$ 26,393,030	\$ 23,586,366
Other revenue:		
Other contributions and service charges	1,040,050	449,519
Other	<u>137,379</u>	<u>65,908</u>
Total revenue	27,570,459	24,101,793
Expenses		
Primary maintenance	6,964,855	4,778,014
Local maintenance	5,485,583	5,277,088
Administrative	573,170	685,138
Equipment rental and other charges	(1,008,303)	(1,070,838)
Depreciation	9,521,710	8,937,256
Nonroad-related projects	<u>156,716</u>	<u>57,223</u>
Total expenses	<u>21,693,731</u>	<u>18,663,881</u>
Change in Net Position	<u>\$ 5,876,728</u>	<u>\$ 5,437,912</u>

The Road Commission's revenue for the year ended December 31, 2017 increased approximately 14 percent from the prior year. This increase was primarily due to the increase in Michigan Transportation Funds. Total expenses for the year increased by approximately 16 percent primarily in preventive road maintenance.

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 2017 budget during the year. The final budget for revenue was approximately \$1 million larger than the original budget, primarily due the addition of Preservation-Structural Improvement projects. Our actual revenue ended the year higher than expected by approximately \$71,000, chiefly due to the Road Commission receiving more Michigan Transportation Funds than anticipated. The final budget for expenditures were approximately \$1,156,000 greater than the original budget generally due to the addition of Preservation-Structural Improvement projects. Actual expenditures at the end of the year were approximately \$1,458,000 less than the final amended budget, predominantly due to grant accounting processing delays and construction savings.

Capital Assets

The Road Commission ended the year with an increase in net capital assets amounting to \$4,810,164. Infrastructure continues to be the largest asset class and is funded by federal, state, and local government participation, as well as by road commission revenue. Depreciation of capital assets is provided for annually over estimated future lives.

Capital Assets	Year Ended	
	2017	2016
Land	\$ 475,599	\$ 475,599
Infrastructure land	22,830,253	22,017,776
Buildings and improvements	4,468,104	4,382,332
Land improvements	402,561	402,561
Road equipment	10,789,993	10,563,649
Other equipment	821,010	812,385
Infrastructure and improvements	192,888,306	185,660,712
Gross capital asses	232,675,826	224,315,014
Accumulated depreciation	(98,487,166)	(94,936,518)
Net capital assets	<u>\$ 134,188,660</u>	<u>\$ 129,378,496</u>

Additional information regarding capital assets is located in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets

The Road Commission of Kalamazoo County considers many factors when setting the fiscal year budget.

Michigan's economic recovery has slowed down but is expected to continue through 2020, making it the longest sustained period of job growth in the state since World War II. 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. In March 2016, Gov. Rick Snyder created the 21st Century Infrastructure Commission. The Commission developed a list of 110 solutions to improve Michigan's infrastructure and enhance the quality of life for all Michiganders.

The 21st Century Infrastructure report recognizes that our state's infrastructure challenges are serious and wide-ranging, and we need to act with urgency to improve our infrastructure systems and make Michigan an even better place to live. As with many of the county road agencies in Michigan, we use an asset management system to prioritize our resources when it comes to taking care of the infrastructure under our jurisdiction. In most cases, the worst roads are not the same as the highest priority roads under an asset management approach. According to the report, Michigan's infrastructure investment gap exceeds \$60 billion over the next 20 years with an annual investment gap of approximately \$4 billion, of which a \$2.7 billion annual investment is necessary for transportation. Addressing this substantial gap will require a combination of federal, state, local, private, and user-fee investments, as well as financing strategies to meet long-term needs.

Road Commission of Kalamazoo County

Management's Discussion and Analysis (Continued)

Michigan Transportation Funds (MTF) is our main source of revenue for operating expenses, repair, and maintenance of the County's roads, bridges and right of way. MTF funds, based on fuel taxes and vehicle registrations fees, declined each year for many years prior to 2011; however, they have increased modestly until 2017. 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, potentially 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. It is important to note there is no guarantee with the General Fund dollars in years 2019 - 2021.

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 5 percent in federal transportation dollars over the next five years. There continues to be indications of further investments in federal funding to rebuild our infrastructure with the President Trump administration; however, there is not a clear forecast as what that may entail.

The Board of County Road Commissioners of the County of Kalamazoo, Michigan, 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.

Requests for Further Information

This financial report is intended to provide a general overview of the Road Commission's finances and demonstrate the Road Commission's accountability for the money it receives. If you have questions about this report or need additional information, please contact us by mail at Road Commission of Kalamazoo County, 3801 East Kilgore Road, Kalamazoo, MI 49001, or visit our website at www.kalamazoocountyroads.com.

Road Commission of Kalamazoo County

Governmental Funds Statement of Net Position/Governmental Fund Balance Sheet

December 31, 2017

	Modified Accrual Basis		Statement of Net Position
	Road Fund	Adjustments	
Assets			
Cash (Note 5)	\$ 6,121,766	\$ -	\$ 6,121,766
Receivables:			
Special assessments receivable	27,651	-	27,651
Due from state transportation department	2,898,941	-	2,898,941
Due on county road agreements	29,537	-	29,537
Sundry accounts receivable	99,218	-	99,218
Inventory	809,624	-	809,624
Prepaid expenses	160,611	-	160,611
Advances	139,457	-	139,457
Prepaid construction	23,432	-	23,432
Net pension asset (Note 7)	-	3,583,731	3,583,731
Capital assets: (Note 6)			
Assets not subject to depreciation	-	23,305,852	23,305,852
Assets subject to depreciation - Net	-	110,882,808	110,882,808
	10,310,237	137,772,391	148,082,628
Deferred Outflows of Resources - Pension (Note 7)	-	204,608	204,608
	\$ 10,310,237	137,976,999	148,287,236
Liabilities			
Accounts payable	\$ 639,079	-	639,079
Accrued liabilities and other	101,102	-	101,102
Advances	492,363	-	492,363
Noncurrent liabilities:			
Due within one year - Compensated absences	-	153,691	153,691
Due in more than one year - Net OPEB obligation (Note 8)	-	1,406,706	1,406,706
	1,232,544	1,560,397	2,792,941
Deferred Inflows of Resources			
Unavailable revenue	27,651	(27,651)	-
Deferred pension cost reductions (Note 7)	-	2,258,116	2,258,116
Deferred OPEB cost reductions (Note 8)	-	119,676	119,676
	27,651	2,350,141	2,377,792
Equity			
Fund balance:			
Nonspendable:			
Inventory	809,624	(809,624)	-
Prepaid expenses	184,043	(184,043)	-
Unassigned	8,056,375	(8,056,375)	-
	9,050,042	(9,050,042)	-
	\$ 10,310,237		
Net Position			
Net investment in capital assets		134,188,660	134,188,660
Unrestricted		8,927,843	8,927,843
		\$ 143,116,503	\$ 143,116,503

See notes to financial statements.

Road Commission of Kalamazoo County

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

Year Ended December 31, 2017

	Modified Accrual Basis		Statement of Activities
	Road Fund	Adjustments	
Revenue			
Intergovernmental:			
Federal grants	\$ 2,764,825	\$ -	\$ 2,764,825
State-shared revenue and grants:			
Michigan Transportation Fund	18,603,917	-	18,603,917
General state aid	568,168	-	568,168
Township and other governmental contributions	4,456,120	-	4,456,120
Other revenue:			
Other contributions and service charges	227,573	812,477	1,040,050
Miscellaneous	160,563	(23,184)	137,379
Total revenue	26,781,166	789,293	27,570,459
Expenditures			
Preservation and structural improvements:			
Primary road system	8,466,651	(8,466,651)	-
Local road system	3,970,148	(3,970,148)	-
Routine and preventive maintenance:			
Primary road system	6,964,855	-	6,964,855
Local road system	5,485,583	-	5,485,583
Administrative	1,134,064	(560,894)	573,170
Less equipment rental and other charges to other expenditures	(1,008,303)	-	(1,008,303)
Capital outlay - Net	1,082,601	(1,082,601)	-
Depreciation expense	-	9,521,710	9,521,710
Nonroad-related projects	156,716	-	156,716
Total expenditures/expenses	26,252,315	(4,558,584)	21,693,731
Net Change in Fund Balances/Net Position	528,851	5,347,877	5,876,728
Fund Balances/Net Position - Beginning of year (as restated) (Note 10)	8,521,191	128,718,584	137,239,775
Fund Balances/Net Position - End of year	\$ 9,050,042	\$ 134,066,461	\$ 143,116,503

December 31, 2017

Note 1 - Nature of Business

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 "County"). The Road Commission is the jurisdictional authority over all public roads lying outside the incorporated cities and villages within Kalamazoo County, Michigan, exclusive of any Michigan Department of Transportation (MDOT) state trunkline highways. The Road Commission is governed by a five-member Board of County Road Commissioners appointed by the County 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 only.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

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

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 above, 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

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 (MTF) 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 are valued at cost, on a weighted-average basis. Inventories consist principally of road material, salt, signs, and equipment maintenance materials. 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.

Prepaid Construction

Prepaid construction results when progress payments made to MDOT 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 acquisition 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>Depreciable Life - Years</u>
Infrastructure	5-50
Buildings	25-50
Road equipment	5-8
Other equipment	4-20

Note 2 - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission reports a deferred outflow of resources related to the defined benefit pension plan, which is only reported in the government-wide financial statements.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Road Commission reports a deferred inflow of resources related to unavailable revenue from special assessments and is only reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The Road Commission also reports deferred inflows of resources related to the defined benefit pension plan and the retiree healthcare plan, which are only reported in the government-wide financial statements.

Net Position

Net position of the Road Commission is classified in three components. Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable. Expendable restricted net position has been limited for use by donors and as held in trust for various uses. Nonexpendable restricted net position has been restricted by donors to be maintained in perpetuity. The Road Commission does not have restricted net position. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Road Commission will sometimes 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 government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The Road Commission will sometimes 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 government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, 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 governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Note 2 - 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 government's highest level of decision-making authority. The Board of County Road Commissioners is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 has, by resolution, authorized the finance director to assign fund balance. The Board of County Road Commissioners 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.

Beginning in January 2014 and continued in 2017, the Road Commission set a goal to maintain a minimum fund balance of 30 - 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 its 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.

Other Postemployment Benefit Costs

The Road Commission offers retiree healthcare benefits to retirees. The Road Commission records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 nonbargaining 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.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

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

Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*. This standard defines an asset retirement obligation (ARO) as “a legally enforceable liability associated with the retirement of a tangible capital asset.” Examples include the removal of a sewage treatment plant or the removal of wind turbines. The GASB recognizes that specific guidance did not exist for these types of AROs as there did for the closure and postclosure care costs for landfills. This statement provides guidance for measuring and recording other AROs and is effective for the Road Commission's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending December 31, 2020.

Note 3 - 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 Road Fund column because of the different measurement focus and basis of accounting, as discussed in Note 2. Below is a reconciliation of the differences:

Fund Balances Reported in Governmental Funds	\$ 9,050,042
Amounts reported for governmental activities in the are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	134,188,660
Special assessment and state funding receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	27,651
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported in the funds:	
Employee compensated absences	(153,691)
Pension benefits	1,530,223
Retiree healthcare benefits	(1,526,382)
Net Position of Governmental Activities	<u><u>\$ 143,116,503</u></u>

December 31, 2017

Note 3 - 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 Road Fund column because of the different measurements focus and basis of accounting, as discussed in Note 2. Below is a reconciliation of the differences:

Net Change in Fund Balances Reported in Governmental Funds	\$ 528,851
Amounts reported for governmental activities in the 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	14,331,877
Depreciation expense	(9,521,710)
Net book value of assets disposed of	(3)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(23,181)
Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	560,894
Change in Net Position of Governmental Activities	<u><u>\$ 5,876,728</u></u>

Note 4 - Stewardship, Compliance, and Accountability

Budgetary Information

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

- Budgeted expenditures cannot exceed budgeted revenue and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoption.
- 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.

December 31, 2017

Note 4 - Stewardship, Compliance, and Accountability (Continued)

- The budgetary information presented may be amended throughout the year by an official action of the Board of County Road Commissioners.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Road Commission did not have significant expenditure budget variances.

Note 5 - 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 two 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 investments comply with all required laws and regulations.

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 \$28,000 of bank deposits (certificates of deposit and 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.

In addition, at December 31, 2017, the Road Commission had approximately \$5,868,000 of bank deposits that were held by the County's treasurer on its behalf. Of this amount, \$250,000 was insured. The remaining amount is insured up to the \$250,000 limit but is based on the combined amount of all county accounts. Therefore, the specific insured amount for the Road Commission is unknown.

December 31, 2017

Note 6 - Capital Assets

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

	Balance January 1, 2017	Additions and Depreciation	Disposals and Adjustments	Balance December 31, 2017
Capital assets not being depreciated:				
Land	\$ 475,599	\$ -	\$ -	\$ 475,599
Infrastructure land	22,017,776	812,477	-	22,830,253
Subtotal	22,493,375	812,477	-	23,305,852
Capital assets being depreciated:				
Buildings and improvements	4,382,332	85,772	-	4,468,104
Land improvements	402,561	-	-	402,561
Road equipment	10,563,649	981,572	(755,228)	10,789,993
Other equipment	812,385	15,257	(6,632)	821,010
Infrastructure and improvements	185,660,712	12,436,799	(5,209,205)	192,888,306
Subtotal	201,821,639	13,519,400	(5,971,065)	209,369,974
Accumulated depreciation:				
Buildings and improvements	2,645,865	92,930	-	2,738,795
Land improvements	135,428	57,479	-	192,907
Road equipment	8,075,058	1,051,730	(755,225)	8,371,563
Other equipment	612,040	55,541	(6,632)	660,949
Infrastructure and improvements	83,468,127	8,264,030	(5,209,205)	86,522,952
Subtotal	94,936,518	9,521,710	(5,971,062)	98,487,166
Net capital assets being depreciated	106,885,121	3,997,690	(3)	110,882,808
Net governmental activities capital assets	\$ 129,378,496	\$ 4,810,167	\$ (3)	\$ 134,188,660

Note 7 - Defined Benefit Pension Plan

Plan Description

The Road Commission of Kalamazoo County participates in the Kalamazoo County Employees' Retirement System (the "System"). The System is a single-employer, defined benefit pension plan, which provides retirement and disability benefits to eligible plan members and beneficiaries. The System was established by the County of Kalamazoo Board of Commissioners and is administered by the Office of Finance of the County of Kalamazoo, Michigan. Accordingly, it is included as a pension trust fund in the County's Comprehensive Annual Financial Report. The County of Kalamazoo, Michigan (the "County"), the Road Commission of Kalamazoo County (the "Road Commission"), and Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") are participating employers of the System.

The System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the System at 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

December 31, 2017

Note 7 - Defined Benefit Pension Plan (Continued)

Benefits Provided

The Kalamazoo County Employees' Retirement Plan System provides retirement, disability, and death benefits to the members and their beneficiaries.

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 FAS.

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.

Benefit terms are generally established and amended by authority of the Board of County Road Commissioners.

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Kalamazoo County Employees' Retirement Plan System hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Road Commission's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2017, no contribution was required in the current year. Plan members are currently not required to contribute to the System.

Net Pension Asset

At December 31, 2017, the Road Commission reported an asset of \$3,583,731 for its proportionate share of the net pension asset. The System's net pension asset was measured as of December 31, 2017. The total pension asset was determined by an actuarial valuation as of that date. The Road Commission followed the allocation methodology as directed by the County to the actuary and, as such, 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 present value of the future benefits for its participants in relation to the present value of the future benefits for the System as a whole. Based on its separately issued actuarial funding valuation as of the same date, the Road Commission's overfunded accrued liability (excess assets at market value) is \$7,480,294 as of December 31, 2017 and \$6,174,935 as of December 31, 2016.

Pension Expense and Deferrals

For the year ended December 31, 2017, the Road Commission recognized pension recovery of \$(717,880).

December 31, 2017

Note 7 - Defined Benefit Pension Plan (Continued)

At December 31, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 75,756	\$ 114,826
Changes in assumptions	55,562	-
Net difference between projected and actual earnings on pension plan investments	-	811,799
Changes in proportionate share, or difference between amount contributed and proportionate share of contributions	73,290	1,331,491
Total	<u>\$ 204,608</u>	<u>\$ 2,258,116</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (recovery) as follows:

Years Ending December 31	Amount
2018	\$ (798,287)
2019	(657,065)
2020	(371,722)
2021	<u>(226,434)</u>
Total	<u>\$ (2,053,508)</u>

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption ranging from 2.75 to 3.5 percent; assumed salary increases (including inflation) ranging from 3.5 to 7.23 percent; an investment rate of return (net of investment expenses) of 7.5 percent; and using the RP-2000 mortality tables, 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 asset.

December 31, 2017

Note 7 - Defined Benefit Pension Plan (Continued)

Investment Rate of Return

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, 2017 for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. small cap (Manager 1)	5.00 %	4.50 %
U.S. small cap (Manager 2)	10.00	4.50
International developed equity	10.00	4.20
U.S. large cap (Manager 1)	30.00	4.00
U.S. large cap (Manager 2)	5.00	4.00
Emerging markets	10.00	6.70
Domestic fixed income	25.00	1.00
Real estate (Manager 1)	2.50	3.20
Real estate (Manager 2)	2.50	3.20

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Road Commission, calculated using the discount rate of 7.5 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 or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net pension asset	\$ 2,042,741	\$ 3,583,731	\$ 4,875,274

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported 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.

December 31, 2017

Note 8 - Other Postemployment Benefit Plan

Plan Description

The Road Commission provides retiree medical benefits for all employees who meet eligibility requirements. The benefits are provided through the Kalamazoo County Retiree Medical Benefits Plan (the "Plan"), a single-employer plan, established by the County Board of Commissioners and administered by the Office of Finance of the County of Kalamazoo, Michigan. Kalamazoo County Retiree Medical Benefits Plan issues a publicly available financial report that can be obtained at 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

Benefits Provided

Kalamazoo County Retiree Medical Benefits Plan provides healthcare, dental, and vision benefits for retirees and their dependents. Benefits are provided to nonunion members hired on or before December 31, 2012, and union members hired on or before December 31, 2016, age 55 with 25 years of experience or age 60 with eight years of experience. Nonunion members hired on or after January 1, 2013 and union members hired on or after January 1, 2017 are not eligible for retiree healthcare benefits.

Benefits are established and can be amended by the County Board of Commissioners.

Contributions

The County of Kalamazoo, Michigan establishes contribution rates based on an actuarially determined rate per a funding valuation. The Kalamazoo County Retiree Medical Benefits Plan hires an independent actuary for this purpose and annually contributes the amount determined. Retirees will contribute 20 percent of the premium cost annually. Retirees pay the full cost of vision and dental coverage. The Road Commission's contractually determined contributions for the year ended December 31, 2017 was \$179,423. Actual contributions to the plan from the Road Commission were \$297,957 for the year ended December 31, 2017.

Net OPEB Liability

At December 31, 2017, the Road Commission reported a liability of \$1,406,706 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2015, which used updated procedures to roll forward the estimated liability to December 31, 2017. The Road Commission's proportion of the net OPEB liability was based on the Road Commission's actuarially determined contribution for the year ended December 31, 2017 relative to all other contributing employers. At December 31, 2017, the Road Commission's proportion was 3.057 percent.

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

For the year ended December 31, 2017, the Road Commission recognized OPEB expense of \$440,747.

December 31, 2017

Note 8 - Other Postemployment Benefit Plan (Continued)

At December 31, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 52,594
Net difference between projected and actual earnings on OPEB plan investments	-	67,082
Total	<u>\$ -</u>	<u>\$ 119,676</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending December 31	Amount
2018	\$ (32,166)
2019	(32,166)
2020	(32,166)
2021	(23,178)
Total	<u>\$ (119,676)</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2015 actuarial valuation was determined using an inflation assumption of 3.5 percent, assumed salary increases (including inflation) from 3.5 to 7.23 percent, an investment rate of return (net of investment expenses) of 7.5 percent, a healthcare cost trend rate of 9.0 percent decreasing to 3.5 percent, and using the RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB. These assumptions were applied to all periods included in the measurement.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2013.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that road commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

December 31, 2017

Note 8 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. small cap (Manager 1)	5.00 %	4.50 %
U.S. small cap (Manager 2)	10.00	4.50
International developed equity	10.00	4.20
U.S. large cap (Manager 1)	30.00	4.00
U.S. large cap (Manager 2)	5.00	4.00
Emerging markets	10.00	6.70
Domestic fixed income	25.00	1.00
Real estate (Manager 1)	2.50	3.20
Real estate (Manager 2)	2.50	3.20

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

The following presents the net OPEB liability of the Road Commission, calculated using the discount rate of 7.5 percent, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net OPEB liability of the Road Commission	\$ 1,765,358	\$ 1,406,706	\$ 1,101,959

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

The following presents the net OPEB liability of the Road Commission, calculated using the healthcare cost trend rate of 9.0 percent decreasing to 3.5 percent, as well as what the Road Commission's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (8.0% decreasing to 2.5%)	Current Healthcare Cost Trend Rate (9.0% decreasing to 3.5%)	1 Percent Increase (10.0% decreasing to 4.5%)
Net OPEB liability of the Road Commission	\$ 1,049,942	\$ 1,406,706	\$ 1,821,777

December 31, 2017

Note 8 - Other Postemployment Benefit Plan (Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows or resources related to OPEB, and OPEB expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported 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 9 - 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.

Note 10 - Adoption of New Accounting Pronouncement

During the current year, the Road Commission adopted Governmental Accounting Standards Board (GASB) 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).

As a result, the government-wide statements now include a liability for our unfunded legacy costs. Some of the changes in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement and part will be deferred and recognized over future years. Refer to the information regarding OPEB in Note 8 for further details. This change does not impact the Road Fund.

December 31, 2017

Note 10 - Adoption of New Accounting Pronouncement (Continued)

The effect of this new accounting standard was a decrease in net position to record the net OPEB liability at December 31, 2016. In addition, the previous OPEB asset recorded under GASB No. 45 of \$285,967 reported in the governmental activities statement of net position at December 31, 2016 was removed. As a result of implementing the statement, the beginning net position of the governmental activities has been restated as indicated:

Net position - December 31, 2016 - As previously reported	\$ 138,909,334
Adjustment for the implementation of GASB Statement No. 75	(1,383,592)
Adjustment for removal of OPEB asset	<u>(285,967)</u>
Net position - December 31, 2016 - As restated	<u><u>\$ 137,239,775</u></u>

Required Supplemental Information

Road Commission of Kalamazoo County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund

Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Michigan Transportation Funds:				
Primary Road Fund	\$ 12,692,000	\$ 14,026,560	\$ 14,138,977	\$ 112,417
Local Road Fund	4,008,000	4,429,440	4,464,940	35,500
Federal, state and enhancement Township projects	4,542,000	3,560,000	3,363,960	(196,040)
Township special assessments	5,096,000	4,266,000	4,273,221	7,221
Cities and other governmental Interest	18,000	22,000	23,180	1,180
Other	10,000	89,000	182,899	93,899
	4,000	13,000	15,004	2,004
	180,000	335,000	349,951	14,951
Total revenue	26,550,000	26,741,000	26,812,132	71,132
Expenditures				
Preservation and structural improvements:				
Primary road system	8,801,000	10,150,000	9,106,517	(1,043,483)
Local road system	6,055,000	6,140,000	6,137,091	(2,909)
Routine and preventive maintenance:				
Primary road system	6,252,500	6,568,000	6,324,988	(243,012)
Local road system	3,408,500	3,393,000	3,318,641	(74,359)
Administrative	1,284,000	1,177,000	1,134,064	(42,936)
Less equipment rental and other charges to other expenditures	(931,000)	(1,031,000)	(1,008,303)	22,697
Capital outlay - Net	819,000	1,094,000	1,082,601	(11,399)
Work performed for other governmental units	896,000	250,000	187,682	(62,318)
Total expenditures	26,585,000	27,741,000	26,283,281	(1,457,719)
Net Change in Fund Balance	(35,000)	(1,000,000)	528,851	1,528,851
Fund Balance - Beginning of year	8,521,191	8,521,191	8,521,191	-
Fund Balance - End of year	\$ 8,486,191	\$ 7,521,191	\$ 9,050,042	\$ 1,528,851

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

Last Four Fiscal Years For the Plan Years Ended December 31

	2017	2016	2015	2014
Road Commission's proportion of the net pension asset	6.91000 %	7.06200 %	7.20000 %	- %
Road Commission's proportionate share of the net pension asset	\$ 3,583,731	\$ 2,542,616	\$ 1,875,773	-
Road Commission's covered employee payroll	\$ 2,700,098	\$ 2,459,213	\$ 2,137,399	2,074,153
Road Commission's proportionate share of the net pension asset as a percentage of its covered employee payroll	132.73 %	103.39 %	87.76 %	- %
Plan fiduciary net position as a percentage of total pension liability	129.41 %	121.00 %	115.70 %	- %

* Note: GASB No. 68 was implemented in 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Road Commission of Kalamazoo County

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

**Last Ten Fiscal Years
Years Ended December 31**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-	-	-	-	-	-
Contribution Deficiency	\$ -									
Road Commission's Covered Employee Payroll	\$ 2,700,098	\$ 2,459,213	\$ 2,137,399	\$ 2,074,153	\$ 2,222,722	\$ 2,379,843	\$ 2,699,115	\$ 2,747,330	\$ 2,842,241	\$ 3,114,099
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

* Historically, contributions have not been required due to the Road Commission's portion of the Plan being overfunded.

Road Commission of Kalamazoo County

Required Supplemental Information
Schedule of the Road Commission's Proportionate Share of the Net OPEB
Liability
Kalamazoo County Retiree Medical Benefits Plan

**Last Fiscal Year
For the Plan Year Ended December 31**

	<u>2017</u>
Road Commission's proportion of the net OPEB liability	3.05700 %
Road Commission's proportionate share of the net OPEB liability	\$ 1,406,706
Road Commission's covered employee payroll	\$ 1,921,362
Road Commission's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	73.21 %
Plan fiduciary net position as a percentage of total OPEB liability	58.68 %

* Note: GASB No. 75 was implemented in 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Road Commission of Kalamazoo County

Required Supplemental Information Schedule of OPEB Contributions

**Last Ten Fiscal Years
Years Ended December 31**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 179,423	\$ 181,088	\$ 182,295	\$ 182,851	\$ 222,630	\$ 217,684	\$ 306,789	\$ 293,578	\$ 345,825	\$ -
Contributions in relation to the actuarially determined contribution	297,957	241,142	215,529	175,031	169,453	178,064	237,476	267,258	313,676	331,521
Contribution Excess (Deficiency)	\$ 118,534	\$ 60,054	\$ 33,234	\$ (7,820)	\$ (53,177)	\$ (39,620)	\$ (69,313)	\$ (26,320)	\$ (32,149)	\$ 331,521
Covered Employee Payroll	\$ 1,921,362	\$ 1,883,924	\$ 1,702,440	\$ 1,880,109	\$ 2,200,685	\$ 2,285,799	\$ 2,403,603	\$ 2,705,045	\$ 2,950,857	\$ 3,118,728
Contributions as a Percentage of Covered Employee Payroll	15.5 %	12.8 %	12.7 %	9.3 %	7.7 %	7.8 %	9.9 %	9.9 %	10.6 %	10.6 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, which is 24 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed period
Remaining amortization period	27 years
Asset valuation method	Market value assets
Inflation	3.5 percent
Healthcare cost trend rates	Initial trend of 9.00 percent gradually decreasing to 3.50 percent
Salary increase	3.50 to 7.23 percent
Investment rate of return	7.5 percent net of OPEB plan expenses
Excise tax	No load was applied in connection with the "Cadillac" tax
Mortality	RP-2000 mortality combined healthy tables, projected 20 years with U.S. ProjectionScale BB.
Aging factors	Based on an internal actuary study using several pricing manuals from National HealthCare Consultant Groups and incorporating analysis and data from a Society of Actuaries survey regarding aging practices used in healthcare valuations.

Road Commission of Kalamazoo County

Note to Required Supplemental Information

December 31, 2017

Budgetary Information

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 statement of governmental fund revenue, expenditures, and changes in fund balance	\$ 26,781,166	\$ 26,252,315
Project performed on behalf of another governmental unit	30,966	30,966
Amounts per budgetary comparison schedule - Road Fund	<u>\$ 26,812,132</u>	<u>\$ 26,283,281</u>

Other Supplemental Information

Road Commission of Kalamazoo County

Other Supplemental Information Analysis of Changes in Road Fund Balances

Year Ended December 31, 2017

	Primary Road	Local Road	County Road Commission	Total Road Fund
Revenue				
Michigan Transportation Fund:				
Engineering	\$ 7,552	\$ 2,448	\$ -	\$ 10,000
Snow removal	1,180	2,165	-	3,345
Urban road	2,362,599	729,143	-	3,091,742
Allocation	11,704,628	3,794,202	-	15,498,830
Governmental funding:				
Federal	2,795,791	-	-	2,795,791
Local bridge	510,000	-	-	510,000
Township and other governmental contributions	1,610	4,266,766	187,744	4,456,120
Other contributions and charges for services	97,416	55,196	133,130	285,742
Other:				
Interest earned	10,425	242	4,337	15,004
Special assessments	-	23,180	-	23,180
Gain on equipment disposals	33,306	-	89,069	122,375
Total revenue	17,524,507	8,873,342	414,280	26,812,129
Expenditures				
Preservation and structural improvements:				
Primary road system	8,466,651	-	-	8,466,651
Local road system	-	3,970,148	-	3,970,148
Routine and preventive maintenance:				
Primary road system	6,964,855	-	-	6,964,855
Local road system	-	5,485,583	-	5,485,583
Administrative	703,184	430,880	-	1,134,064
Equipment - Net	107,332	125,495	16,549	249,376
Capital outlay - Net	(334,326)	-	159,245	(175,081)
Work performed for other governmental units	-	-	187,682	187,682
Total expenditures	15,907,696	10,012,106	363,476	26,283,278
Excess of Revenue Over (Under)				
Expenditures	1,616,811	(1,138,764)	50,804	528,851
Optional Transfers	(1,138,764)	1,138,764	-	-
Net Change in Fund Balances	478,047	-	50,804	528,851
Fund Balances - Beginning of year	6,017,761	-	2,503,430	8,521,191
Fund Balances - End of year	\$ 6,495,808	\$ -	\$ 2,554,234	\$ 9,050,042

Road Commission of Kalamazoo County

Note to Other Supplemental Information

December 31, 2017

A reconciliation of the analysis of changes in Road Fund balances to the statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
Amounts per statement of governmental fund revenue, expenditures, and change in fund balance	\$ 26,781,166	\$ 26,252,315
Gain on disposal of capital assets	(3)	(3)
Project performed on behalf of another governmental unit	<u>30,966</u>	<u>30,966</u>
Amounts per analysis of changes in Road Fund balances	<u>\$ 26,812,129</u>	<u>\$ 26,283,278</u>