

Financial Report
with Supplemental Information
September 30, 2018



**Kent County
Road Commission**

(a Component Unit of Kent County, Michigan)



Kent County Road Commission

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Independent Auditor's Report

To the Board of Commissioners
Kent County Road Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the Road Fund, and the aggregate remaining fund information of Kent County Road Commission (the "Road Commission"), a component unit of Kent County, Michigan, as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise Kent County Road Commission'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, the Road Fund, and the aggregate remaining fund information of Kent County Road Commission as of September 30, 2018 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 Commissioners
Kent County Road Commission

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Road Fund budgetary comparison schedules, pension system schedules of changes in the net pension liability and employer contributions, and OPEB schedules of changes in the net OPEB liability, employer contributions, and investment returns 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019 on our consideration of Kent County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kent County Road Commission's internal control over financial reporting and compliance.

Plante & Moreau, PLLC

February 19, 2019

Kent County Road Commission

Management's Discussion and Analysis

As management of Kent County Road Commission (the "Road Commission"), we offer readers this narrative overview and analysis of the financial activities for the year ended September 30, 2018.

Financial Highlights

- The Michigan Transportation Fund Revenue increased by more than \$4 million over last year.
- Overall revenue increased by approximately \$10 million from last year.
- Expenditures increased by more than \$4 million over last year.
- Over \$3.6 million was added to fund balance this year.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to Road Commission's basic financial statements. The Road Commission's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplemental information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission's finances in a manner similar to a private-sector business. The statement of net position presents financial information on all of the Road Commission's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating. The statement of activities presents information showing how the Road Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., the cost of pension and other postemployment benefits).

Both of the government-wide financial statements distinguish functions of the Road Commission that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Road Commission include general government, public safety, public works, community and economic development, and culture and recreation. The business-type activities of the Road Commission include providing water and sewage disposal.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Road Commission's funds can be divided into the following three categories:

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. The Road Commission adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Road Commission's own programs. The accounting used for fiduciary funds is full accrual accounting much like that used for proprietary funds. The Road Commission's fiduciary fund is the other postemployment benefit trust fund.

Notes and Other Information

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information concerning the Road Commission's progress in funding its obligation to provide pension and OPEB benefits to its employees.

Government-wide Overall Financial Analysis

As noted earlier, 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 \$287,074,471 at the close of the most recent fiscal year.

The following tables provide condensed information about the Road Commission as of and for the years ended September 30, 2018 and 2017.

Road Commission's Net Position

	Governmental Activities	
	2018	2017
Assets		
Current and other assets	\$ 32,301,986	\$ 27,595,027
Capital assets	268,377,086	261,255,783
Total assets	300,679,072	288,850,810
Deferred Outflows of Resources	220,205	767,981
Liabilities		
Current liabilities	9,545,531	7,519,087
Noncurrent liabilities	3,925,809	5,297,792
Total liabilities	13,471,340	12,816,879
Deferred Inflows of Resources	353,466	62,845
Net Position		
Net investment in capital assets	268,377,086	261,255,783
Unrestricted	18,697,385	14,543,314
Total net position	\$ 287,074,471	\$ 275,799,097

Net position of the Road Commission increased by approximately \$11.3 million. The increase in net position is primarily the result of the timing difference between when infrastructure is purchased and when depreciation is recorded on the infrastructure.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Road Commission's Changes in Net Position

	Governmental Activities	
	2018	2017
Revenue	\$ 73,844,803	\$ 62,513,791
Expenditures	62,850,156	59,072,783
Excess of Revenue Over Expenditures	10,994,647	3,441,008
Other Financing Sources - Sale of capital assets	280,727	936,258
Net Change in Net Position	11,275,374	4,377,266
Net Position - Beginning of year	275,799,097	271,421,831
Net Position - End of year	<u>\$ 287,074,471</u>	<u>\$ 275,799,097</u>

The increase in the net change in net position from the prior year was primarily driven by increases in revenue exceeding increases in expenditures. Revenue increased primarily with additional available funding from the State of Michigan, including and nearly \$4.47 million increase the Road Commission's allocation of Act 51 gas and weight tax, as well as an additional \$3.35 million from the State's General Fund. Expenses also increased, but not to the same extent as revenue, resulting in an even greater increase in net position than was experienced in the prior year.

Financial Analysis of Individual Funds

As noted earlier, the Road Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Road Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for discretionary use, as it represents the portion of the fund balance which has not yet been limited to use for a particular purpose by an external party.

The Road Commission's only governmental fund, the Road Fund, is significant to understanding the Road Commission's financial activities.

At the end of the current fiscal year, unassigned fund balance was \$19,896,205.

Road Fund Budgetary Highlights

- The 2018 budget was amended three times.
- Amendments increased revenue by \$4.6 million.
- Amendments decreased expenditures by \$8.9 million.

The 2018 budget was amended due in large part to additional revenue appropriations from the legislature which allowed the Road Commission to complete several unanticipated road projects. Amendments also covered carryover road projects and associated federal and state revenue from 2017, as well as additions to, deletions from, and changes to capital outlay purchases.

Kent County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

The Road Commission's investment in capital assets for its governmental activities as of September 30, 2018 amount to \$268.4 million (net of accumulated depreciation). Significant capital asset additions during the year included \$4.7 million for new road equipment and \$27.4 million in infrastructure additions. Additional information on the Road Commission's capital assets can be found in Note 5.

At the end of the current fiscal year, the Road Commission had outstanding long-term debt of \$3.8 for compensated absences. Additional information on the Road Commission's long-term debt can be found in Note 6.

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Road Commission's budget for the 2018-2019 fiscal year:

The Michigan Transportation Fund (MTF), the Road Commission's largest source of revenue, is directly linked to economic activity. Growth in economic activity, as well as recent changes to the tax and fees that comprise the MTF, contributed to the amount of MTF revenue the Road Commission receives. This slight increase in revenue has a direct impact on the amount of road and bridge improvements the Road Commission can fund in a given year. The Road Commission anticipates both revenue and expense will continue to increase in the near future.

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. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Finance
1500 Scribner Ave. NW
Grand Rapids, MI 49504

Kent County Road Commission

Statement of Net Position/Governmental Fund Balance Sheet

September 30, 2018

	Road Fund	Adjustments	Statement of Net Position
Assets			
Cash and investments (Note 2)	\$ 19,004,720	\$ -	\$ 19,004,720
Receivables:			
Other receivables	564,963	-	564,963
State of Michigan transportation fund	7,527,612	-	7,527,612
State of Michigan trunkline and other	620,178	-	620,178
Due from local units of government	1,724,263	-	1,724,263
Inventory	1,940,146	-	1,940,146
Prepaid expenses and other assets	920,104	-	920,104
Capital assets: (Note 5)			
Assets not subject to depreciation	-	6,360,671	6,360,671
Assets subject to depreciation - Net	-	262,016,415	262,016,415
Total assets	32,301,986	268,377,086	300,679,072
Deferred Outflows of Resources - Deferred OPEB costs (Note 9)	-	220,205	220,205
Total assets and deferred outflows of resources	\$ 32,301,986	268,597,291	300,899,277
Liabilities			
Accounts payable	\$ 3,505,426	-	3,505,426
Due to State of Michigan	1,148,234	-	1,148,234
Due to local units of government	4,225	-	4,225
Advances payable	4,152,057	-	4,152,057
Accrued liabilities and other	735,589	-	735,589
Noncurrent liabilities:			
Due within one year - Compensated absences (Note 6)	-	2,266,831	2,266,831
Due in more than one year:			
Compensated absences (Note 6)	-	1,498,903	1,498,903
Net pension liability (Note 8)	-	12,470	12,470
Net OPEB liability (Note 9)	-	147,605	147,605
Total liabilities	9,545,531	3,925,809	13,471,340
Deferred Inflows of Resources - Deferred OPEB cost reductions (Note 9)	-	353,466	353,466
Total liabilities and deferred inflows of resources	9,545,531	4,279,275	13,824,806
Fund Balance			
Nonspendable:			
Inventory	1,940,146	(1,940,146)	-
Prepays	920,104	(920,104)	-
Unassigned	19,896,205	(19,896,205)	-
Total	22,756,455	(22,756,455)	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 32,301,986		
Net Position			
Net investment in capital assets		268,377,086	268,377,086
Unrestricted		18,697,385	18,697,385
Total net position		\$ 287,074,471	\$ 287,074,471

Kent County Road Commission

Reconciliation of Fund Balance of the Governmental Fund to the Net Position on the Statement of Net Position

September 30, 2018

Fund Balance Reported in the Governmental Fund	\$ 22,756,455
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 fund	268,377,086
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 as fund liabilities:	
Employee compensated absences	(3,765,734)
Pension benefits	(12,470)
Retiree healthcare (OPEB) benefits	(280,866)
Net Position of Governmental Activities	<u>\$ 287,074,471</u>

Kent County Road Commission

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

Year Ended September 30, 2018

	Road Fund	Adjustments	Statement of Activities
Revenue			
Intergovernmental:			
Federal grants	\$ 5,575,976	\$ -	\$ 5,575,976
State-shared revenue and grants:			
Act 51 gas and weight tax	45,141,282	-	45,141,282
State trunkline maintenance	9,524,664	-	9,524,664
Other state aid	3,954,307	-	3,954,307
Local grants and contributions	5,616,627	-	5,616,627
Charges for services	1,808,955	-	1,808,955
Investment earnings	461,255	-	461,255
Other revenue:			
Local donations	-	1,715,751	1,715,751
Scrap sale	45,986	-	45,986
Total revenue	72,129,052	1,715,751	73,844,803
Expenditures			
Construction/Capacity improvements	3,170,017	(3,170,017)	-
Preservation/Structural improvements	22,531,673	(22,531,673)	-
Maintenance	28,032,148	-	28,032,148
State trunkline maintenance	8,156,179	-	8,156,179
State trunkline nonmaintenance	1,360,132	-	1,360,132
Administrative	2,431,473	(533,451)	1,898,022
Equipment - Net	1,225,160	(3,945,148)	(2,719,988)
Capital outlay - Net	871,250	(871,250)	-
Depreciation expense - Net	-	24,991,561	24,991,561
Work performed for other governmental units	1,132,102	-	1,132,102
Total expenditures	68,910,134	(6,059,978)	62,850,156
Excess of Revenue Over Expenditures	3,218,918	7,775,729	10,994,647
Other Financing Sources (Uses) - Sale of capital assets	401,567	(120,840)	280,727
Net Change in Fund Balance	3,620,485	7,654,889	11,275,374
Fund Balance/Net Position - Beginning of year	19,135,970	256,663,127	275,799,097
Fund Balance/Net Position - End of year	<u>\$ 22,756,455</u>	<u>\$ 264,318,016</u>	<u>\$ 287,074,471</u>

Kent County Road Commission

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance to the Statement of Activities

Year Ended September 30, 2018

Net Change in Fund Balance Reported in the Governmental Fund \$ 3,620,485

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	32,233,708
Depreciation expense	(24,991,561)
Net book value of assets disposed of	<u>(120,844)</u>

Total	7,121,303
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Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund

533,586

Change in Net Position of Governmental Activities **\$ 11,275,374**

Kent County Road Commission

Statement of Fiduciary Net Position

December 31, 2017

	Other Employee Benefit Trust Fund
Assets - Comingled multiasset portfolio (held by MERS)	\$ 3,991,055
Liabilities	-
Net Position - Restricted for OPEB	<u><u>\$ 3,991,055</u></u>

Kent County Road Commission

Statement of Changes in Fiduciary Net Position

Period Ended December 31, 2017

	Other Employee Benefit Trust Fund
Additions	
Investment income	\$ 113,954
Contributions - Employer contributions	<u>570,305</u>
Total additions	684,259
Deductions	
Benefit payments	70,305
Administrative expenses, not investment related	<u>2,103</u>
Total deductions	<u>72,408</u>
Net Increase in Net Position Held in Trust	611,851
Net Position Held in Trust for Other Employee Benefits - Beginning of period	<u>3,379,204</u>
Net Position Held in Trust for Other Employee Benefits - End of period	<u><u>\$ 3,991,055</u></u>

September 30, 2018

Note 1 - Significant Accounting Policies

Reporting Entity

Kent County Road Commission (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 Kent, Michigan (the "County"). The Road Commission is the jurisdictional authority over all public roads lying outside the incorporated cities and villages within Kent 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 Kent County Board of Commissioners. The Road Commission's financial statements will be included in the basic financial statements of the County of Kent, Michigan as a discretely presented component unit.

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. 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 below, which demonstrates accountability for how the current resources have been spent. The government-wide columns are 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.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the Road Commission's programs. Activities that are reported as fiduciary include the Other Postemployment Benefits (OPEB) Trust, which has a calendar year end of December 31, 2017; therefore, it is included in this report as of December 31, 2017. The OPEB Trust accumulates resources for OPEB benefits to qualified employees. Prior to the current year, the OPEB Trust was reporting using a year end of September 30; therefore, these financial statements only report three months of activity.

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.

September 30, 2018**Note 1 - 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.

Specific Balances and Transactions**Cash and Investments**

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

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 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.

Capital Assets

Capital assets, which include land, property, equipment, and infrastructure, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 to \$5,000 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.

Capital assets are depreciated using the Michigan Department of Transportation (MDOT) depreciation schedules for equipment and the straight-line method for infrastructure over the following estimated useful lives:

	Depreciable Life - Years
Buildings and improvements	25-50
Equipment	3-8
Roads	8-20
Other infrastructure	20-40

Deferred Outflows and Inflows of Resources

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

September 30, 2018**Note 1 - Significant Accounting Policies (Continued)****Net Position**

Net position of the Road Commission is classified in two components. Net investment in capital assets 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. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital.

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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. 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).

Grants and Contributions

The Road Commission receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension

The Road Commission offers a defined benefit pension plan to its employees. The Road Commission records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability and pension expense, information about the fiduciary net position of the Municipal Employees' Retirement System (MERS) of Michigan pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, 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.

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.

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. Sick pay is accrued for the estimated amount that the Road Commission will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

September 30, 2018

Note 1 - 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*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending September 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending September 30, 2020.

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 September 30, 2021.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the year ending September 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Road Commission's financial statements for the September 30, 2021 fiscal year.

September 30, 2018

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

	Cash and Investments
Kent County Treasurer's Investment Pool	\$ 19,003,220
Petty cash	1,500
MERS Total Market Fund - OPEB Trust	3,991,055
Total	<u>\$ 22,995,775</u>

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 MERS Total Market Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The Road Commission's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Kent County Treasurer's Investment Pool consisted of the following. The Other Postemployment Benefits (OPEB) Trust also holds investments in the MERS Total Market Fund of \$3,991,055 that are excluded from the table below:

Investment	Percentage of Pool Total	Maturity in Years
U.S. government agency securities	13	0-3
Certificates of deposit	60	0-2
Deposits, money markets, and other pools	28	N/A

Note 2 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. The Road Commission's investments are not rated.

Fair Value Measurements

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

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

The Road Commission has the following recurring fair value measurements as of September 30, 2018:

- The Kent County Pool is valued using a pricing model utilizing observable fair value measures of pool investments and other observable inputs to determine the fair value of securities making up the investment pool (Level 2 inputs).

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

Investments in Entities that Calculate Net Asset Value per Share

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

At September 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Carrying Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
MERS Total Market Fund	\$ 3,991,055	\$ -	N/A	N/A

The MERS Total Market Fund is a fully diversified portfolio combining traditional stocks and bonds with alternative asset classes, including real estate, private equity, and commodities. The objective is to provide current income and capital appreciation while minimizing the volatility of the capital markets. MERS manages the asset allocation and monitors the underlying investment managers of the MERS Total Market Fund.

September 30, 2018

Note 3 - 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.
- 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 4 - Advances Payable

Advances due to local units of government, private citizens, and the State of Michigan are as follows:

State trunkline advances	\$ 2,252,698
Soil erosion performance advances	1,137,140
Plat advances	12,622
Commercial driveway performance advances	554,801
Performance deposits - Other	194,796
	<hr/>
Total	\$ 4,152,057

September 30, 2018

Note 5 - Capital Assets

Capital asset activity of the Road Commission for the year ended September 30, 2018 was as follows:

	Balance October 1, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 4,764,484	\$ -	\$ -	\$ 4,764,484
Construction in progress	2,147,871	1,596,187	(2,147,871)	1,596,187
Subtotal	6,912,355	1,596,187	(2,147,871)	6,360,671
Capital assets being depreciated:				
Buildings and improvements	13,088,470	392,117	-	13,480,587
Equipment	32,846,203	4,975,835	(2,419,638)	35,402,400
Infrastructure	601,618,391	27,417,440	-	629,035,831
Subtotal	647,553,064	32,785,392	(2,419,638)	677,918,818
Accumulated depreciation:				
Buildings and improvements	7,086,016	342,710	(436)	7,428,290
Equipment	23,573,194	3,531,683	(2,298,358)	24,806,519
Infrastructure	362,550,426	21,117,168	-	383,667,594
Subtotal	393,209,636	24,991,561	(2,298,794)	415,902,403
Net capital assets being depreciated	254,343,428	7,793,831	(120,844)	262,016,415
Net governmental activities capital assets	<u>\$ 261,255,783</u>	<u>\$ 9,390,018</u>	<u>\$ (2,268,715)</u>	<u>\$ 268,377,086</u>

Note 6 - Long-term Debt

Long-term debt activity for the year ended September 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 3,667,275	\$ 1,010,813	\$ (912,354)	\$ 3,765,734	\$ 2,266,831

Note 7 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and medical and dental 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.

September 30, 2018

Note 7 - Risk Management (Continued)

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

The Road Commission is self-insured for dental claims. The Road Commission estimates the liability for dental claims that have been incurred through the end of the fiscal year, including claims that have been reported, as well as those that have not yet been reported. The estimated liability is insignificant and has not been recorded on the accompanying financial statements.

Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Pension Plan

Plan Description

The Road Commission participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers eligible employees of the Road Commission hired before August 19, 1985. The plan has been closed to new entrants. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Road Commission Board of Commissioners has the authority to establish and amend benefits offered by the defined benefit plan. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report that includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Benefits Provided

MERS provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

Retirement benefits are calculated as a percentage of the employee's final average salary over a given number of years times the employee's years of service. Normal retirement age is 60 with early retirement at 55 with 15 years of service or at 50 with 25 years of service 0.5 percent reduced benefits. The vesting period is 10 years. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits are always the larger of the benefit computed as a contingent survivor beneficiary or 85 percent of accrued retirement allowance benefit. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	5

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

September 30, 2018

Note 8 - Pension Plan (Continued)

For the year ended September 30, 2018, the Road Commission's required contribution rate was \$3,430 on a monthly basis. Actual contributions exceeded the required contribution rate and totaled \$68,649 for the fiscal year.

Net Pension Liability

The net pension liability reported at September 30, 2018 was determined using a measure of the total pension liability and the pension net position as of a December 31, 2017 measurement date. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 172,820	\$ 57,664	\$ 115,156
Changes for the year:			
Interest	12,451	-	12,451
Differences between expected and actual experience	13,007	-	13,007
Contributions - Employer	-	118,649	(118,649)
Net investment income	-	9,640	(9,640)
Benefit payments, including refunds	(34,357)	(34,357)	-
Administrative expenses	-	(145)	145
Net changes	(8,899)	93,787	(102,686)
Balance at December 31, 2017	<u>\$ 163,921</u>	<u>\$ 151,451</u>	<u>\$ 12,470</u>

The plan's fiduciary net position represents 92.4 percent of the total pension liability.

Pension Expense

For the year ended September 30, 2018, the Road Commission recognized pension expense of \$17,292.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases (including inflation) of 3.75 percent, an investment rate of return (net of investment expenses) of 8.0 percent, and the RP-2014 mortality tables. These assumptions were applied to all periods included in the measurement, and are based on an experience study conducted for the period from January 1, 2009 through December 31, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that road commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

September 30, 2018

Note 8 - Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a model 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, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	5.50

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

The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.0 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability of the Road Commission	\$ 18,142	\$ 12,470	\$ 7,163

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 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.

Defined Contribution Pension Plan

The Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan administered by The Prudential Financial. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by resolution by the Board of Commissioners, the Road Commission contributes up to 8 percent of employees' gross earnings. Employees may contribute any amount up to a maximum of 85 percent of their earnings into their retirement account within annual IRS limitations. Employer and employee contributions for each employee, plus interest allocated to the employee's account, are fully vested after one year of service. For the current year, the Road Commission contributions were \$1,152,933, and employee contributions were \$1,129,406.

Note 9 - Other Postemployment Benefit Plan

Plan Description

The Road Commission provides OPEB for all employees who meet eligibility requirements hired before December 11, 2001. The plan has been closed to new entrants. The benefits are provided through the plan, a single-employer plan administered by the Road Commission.

The financial statements of the OPEB plan are included in these financial statements as an other employee benefit trust fund (a fiduciary fund).

Management of the plan is vested in the road commission board.

Benefits Provided

Benefit terms provide for various benefits to retirees based on year of employment and classification. The Road Commission generally pays a percentage of the monthly premium cost through the date of eligibility for Medicare at which time the Road Commission pays for the cost of a Medicare supplement program. Benefit provisions are established through policy and available to all qualifying full-time employees.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	December 31, 2016
Inactive plan members or beneficiaries currently receiving benefits	73
Active plan members	<u>195</u>
Total plan members	<u><u>268</u></u>

Contributions

Retiree healthcare costs are paid by the Road Commission on a "pay-as-you-go" basis. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended September 30, 2018, the Road Commission made payments for postemployment health benefit premiums of \$268,998, plus it contributed \$500,000 into a prefunded retiree healthcare fund, which is reported in this financial statement as an other employee benefit trust fund type.

Net OPEB Liability

The Road Commission has chosen to use the December 31 measurement date as its measurement date for the net OPEB liability. The September 30, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2017 measurement date. The December 31, 2017 measurement date total OPEB liability was determined by an actuarial valuation performed as of December 31, 2016, which used updated procedures to roll forward the estimated liability to December 31, 2017.

September 30, 2018

Note 9 - Other Postemployment Benefit Plan (Continued)

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at December 31, 2016	\$ 4,132,474	\$ 2,617,113	\$ 1,515,361
Changes for the year:			
Service cost	19,331	-	19,331
Interest	306,849	-	306,849
Differences between expected and actual experience	(218,334)	-	(218,334)
Contributions - Employer	-	1,101,660	(1,101,660)
Net investment income	-	381,305	(381,305)
Benefit payments, including refunds	(101,660)	(101,660)	-
Administrative expenses	-	(7,363)	7,363
Net changes	6,186	1,373,942	(1,367,756)
Balance at December 31, 2017	<u>\$ 4,138,660</u>	<u>\$ 3,991,055</u>	<u>\$ 147,605</u>

The plan's fiduciary net position represents 96.4 percent of the total OPEB liability.

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

For the year ended September 30, 2018, the Road Commission recognized OPEB expense of \$28,171.

At September 30, 2018, 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	\$ 14,750	\$ (188,094)
Changes in assumptions	6,762	-
Net difference between projected and actual earnings on OPEB plan investments	-	(165,372)
Employer contributions to the plan subsequent to the measurement date	198,693	-
Total	<u>\$ 220,205</u>	<u>\$ (353,466)</u>

September 30, 2018

Note 9 - Other Postemployment Benefit Plan (Continued)

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

Years Ending September 30	Amount
2019	\$ (71,865)
2020	(71,865)
2021	(71,865)
2022	(56,154)
2023	(26,594)
Thereafter	(33,611)
Total	<u>\$ (331,954)</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using an inflation assumption of 2.25 percent; assumed salary increases (including inflation) of 3.00 percent; an investment rate of return (net of investment expenses) of 7.50 percent; a healthcare cost trend rate of 8.50 percent for 2017, decreasing 0.50 percent per year to an ultimate rate of 4.50 percent for pre-65 individuals and 5.00 percent for Medicare eligible individuals; and using the mortality tables set forth in IRS regulations for 2016 (1.430(h)(3)) based on the RP-2000 tables with scale AA. These assumptions were applied to all periods included in the measurement.

Certain inactive plan members share in the cost of OPEB by paying the percentage of the benefit not provided under the road commission policy.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50 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.

September 30, 2018

Note 9 - 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	Long-term Expected Real Rate of Return
Global equity	6.15 %
Global fixed income	1.26
Real assets	7.22
Diversifying strategies	5.00

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 7.50 percent, as well as what the Road Commission's net OPEB liability (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 OPEB liability (asset) of the Plan	\$ 529,370	\$ 147,605	\$ (182,037)

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, as described in the actuarial assumptions section, as well as what the Road Commission's net OPEB (asset) 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	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB (asset) liability of the Plan	\$ (219,664)	\$ 147,605	\$ 570,851

September 30, 2018**Note 9 - Other Postemployment Benefit Plan (Continued)*****Investment Policy***

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the Road Commission by a majority vote of its members. It is the policy of the Road Commission to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Road Commission's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Global equity	55.50 %
Global fixed income	18.50
Real assets	13.50
Diversifying strategies	12.50
Total	100.00 %

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 13.24 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Required Supplemental Information

Kent County Road Commission

Required Supplemental Information Budgetary Comparison Schedule Road Fund

Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenue				
Intergovernmental:				
Federal and state aid	\$ 7,822,233	\$ 8,965,833	\$ 6,182,143	\$ (2,783,690)
State-shared revenue and grants:				
Michigan transportation funds	46,071,600	44,823,509	45,141,282	317,773
State trunkline revenue	9,000,000	9,000,000	9,524,664	524,664
State general fund appropriation	-	3,348,150	3,348,139	(11)
Contributions for work performed for others	7,162,900	8,518,450	7,340,906	(1,177,544)
Proceeds from sale of capital assets	380,000	380,000	401,567	21,567
Investment earnings:				
Interest income	125,000	150,000	284,035	134,035
Property rental	161,396	161,396	177,220	15,824
Other revenue	27,000	27,000	45,986	18,986
Total revenue	70,750,129	75,374,338	72,445,942	(2,928,396)
Expenditures				
Construction/Capacity improvements -				
Primary and local	3,618,000	3,618,000	3,024,125	593,875
Preservation/Structural improvements -				
Primary and local	20,014,510	26,622,020	21,519,211	5,102,809
Maintenance - Primary and local	23,099,819	23,099,819	22,536,759	563,060
State trunkline maintenance	8,100,000	8,100,000	7,199,774	900,226
Administrative	1,538,000	1,862,108	1,746,181	115,927
Equipment - Net	647,000	865,335	(36,336)	901,671
Capital outlay - Net	4,787,000	6,907,500	4,551,959	2,355,541
Depreciation expense - Net	(3,288,000)	(3,552,000)	(3,873,668)	321,668
Work performed for other governmental units	1,703,000	1,303,000	807,618	495,382
Distributive expenses:				
Fringe benefits	9,415,600	9,415,600	8,932,608	482,992
Other distributive expenses	2,469,000	2,738,200	2,417,226	320,974
Total expenditures	72,103,929	80,979,582	68,825,457	12,154,125
Net Change in Fund Balance	(1,353,800)	(5,605,244)	3,620,485	9,225,729
Fund Balance - Beginning of year	19,135,970	19,135,970	19,135,970	-
Fund Balance - End of year	\$ 17,782,170	\$ 13,530,726	\$ 22,756,455	\$ 9,225,729

Kent County Road Commission

Note to Required Supplemental Information

September 30, 2018

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Road Fund, except that proceeds from the sale of capital asset have been included in the "revenue" category, rather than as "other financing sources (uses)," and certain charges for services have been included against "expenditures" instead of included in "revenue."

The budget document presents information for the Road Fund by "activity" line items before distributive expenses are allocated to the other lines above. The legal level of budgetary control adopted by the governing body is the "activity" level (i.e., the level at which expenditures may not legally exceed appropriations).

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A reconciliation of the budgetary comparison schedule to the fund-based statement of revenue, expenditures, and changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
Amounts per operating statement	\$ 72,129,052	\$ 68,910,134
Proceeds from the sale of capital assets	401,567	-
Certain charges for services	<u>(84,677)</u>	<u>(84,677)</u>
Amounts per budget statement	<u><u>\$ 72,445,942</u></u>	<u><u>\$ 68,825,457</u></u>

Kent County Road Commission

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

	Last Four Fiscal Years			
	2018	2017	2016	2015
Total Pension Liability				
Interest	\$ 12,451	\$ 16,946	\$ 17,673	\$ 20,211
Differences between expected and actual experience	13,007	(33,628)	21,041	-
Changes in assumptions	-	-	6,178	-
Benefit payments, including refunds	(34,357)	(44,643)	(49,924)	(52,020)
Net Change in Total Pension Liability	(8,899)	(61,325)	(5,032)	(31,809)
Total Pension Liability - Beginning of year	172,820	234,145	239,177	270,986
Total Pension Liability - End of year	\$ 163,921	\$ 172,820	\$ 234,145	\$ 239,177
Plan Fiduciary Net Position				
Contributions - Employer	\$ 118,649	\$ 49,380	\$ -	\$ 86,268
Net investment income (loss)	9,640	3,413	(797)	3,588
Administrative expenses	(145)	(77)	(164)	(135)
Benefit payments, including refunds	(34,357)	(44,643)	(49,924)	(52,020)
Net Change in Plan Fiduciary Net Position	93,787	8,073	(50,885)	37,701
Plan Fiduciary Net Position - Beginning of year	57,664	49,591	100,476	62,775
Plan Fiduciary Net Position - End of year	\$ 151,451	\$ 57,664	\$ 49,591	\$ 100,476
Net Pension Liability - Ending	\$ 12,470	\$ 115,156	\$ 184,554	\$ 138,701
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	92.39 %	33.37 %	21.18 %	42.01 %
Covered Payroll	\$ -	\$ -	\$ -	\$ -
Net Pension Liability as a Percentage of Covered Payroll	- %	- %	- %	- %

Above data is based on a measurement date of December 31, which is not the Road Commission's fiscal year end.

Covered payroll is not applicable.

This schedule is being built prospectively until 10 years of data is presented.

Kent County Road Commission

Required Supplemental Information Schedule of Pension Contributions

	Last Ten Fiscal Years									
	Years Ended September 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 41,160	\$ 49,380	\$ -	\$ 86,268	\$ 47,508	\$ 47,820	\$ 47,508	\$ -	\$ -	\$ 7,630
Contributions in relation to the actuarially determined contribution	68,649	49,380	-	86,268	47,508	47,820	47,508	-	-	7,630
Contribution Excess	\$ 27,489	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

Covered payroll is applicable.

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	10-year smoothed
Inflation	2.5 percent in the long term
Salary increase	3.75 percent
Investment rate of return	8 percent
Retirement age	Normal at 60, with early retirement at 30 years of experience
Mortality	50 percent male/50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables

Kent County Road Commission

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

	Last Two Fiscal Years	
	2018	2017
Total OPEB Liability		
Service cost	\$ 19,331	\$ 16,496
Interest	306,849	294,901
Differences between expected and actual experience	(218,334)	19,750
Changes in assumptions	-	9,054
Benefit payments, including refunds	(101,660)	(262,966)
Net Change in Total OPEB Liability	6,186	77,235
Total OPEB Liability - Beginning of year	4,132,474	4,055,239
Total OPEB Liability - End of year	\$ 4,138,660	\$ 4,132,474
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,101,660	\$ 163,107
Net investment income	381,305	259,370
Administrative expenses	(7,363)	(6,332)
Benefit payments, including refunds	(101,660)	(262,966)
Net Change in Plan Fiduciary Net Position	1,373,942	153,179
Plan Fiduciary Net Position - Beginning of year	2,617,113	2,463,934
Plan Fiduciary Net Position - End of year	\$ 3,991,055	\$ 2,617,113
Net OPEB Liability - Ending	\$ 147,605	\$ 1,515,361
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	96.43 %	63.33 %
Covered Employee Payroll	\$ -	\$ -
Net OPEB Liability as a Percentage of Covered Employee Payroll	- %	- %

Above data is based on a measurement date of December 31, which is not the Road Commission's fiscal year.

Covered employee payroll is not available.

This schedule is being built prospectively until 10 years of data is presented.

Kent County Road Commission

Required Supplemental Information Schedule of OPEB Contributions

	Last Ten Fiscal Years									
	Years Ended September 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 256,151	\$ 241,894	\$ 163,107	\$ 349,449	\$ 361,684	\$ 386,609	\$ 395,389	\$ 457,597	\$ 461,583	\$ 494,520
Contributions in relation to the actuarially determined contribution	768,998	742,823	163,107	349,449	361,684	481,879	406,920	446,066	461,583	494,520
Contribution Excess (Deficiency)	\$ 512,847	\$ 500,929	\$ -	\$ -	\$ -	\$ 95,270	\$ 11,531	\$ (11,531)	\$ -	\$ -
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %

Covered employee payroll is not available.

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, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Eight years (average remaining service life)
Asset valuation method	Market value of assets
Inflation	2.25 percent
Healthcare cost trend rates	8.5 percent for 2017 graded down to rate of 4.5 percent for pre-Medicare eligible
Salary increase	3.00 percent
Investment rate of return	7.50 percent
Retirement age	Varies depending on plan adoption
Mortality	IRS 1.430(h) annuitant and nonannuitant (sex distinct) tables

Kent County Road Commission

Required Supplemental Information Schedule of OPEB Investment Returns

Last Two Plan Years Years Ended December 31

	2017	2016
Annual money-weighted rate of return - Net of investment expense	13.24 %	10.37 %

This schedule is being built prospectively until 10 years of data is presented.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of
County Road Commissioners
Kent County Road Commission

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the Road Fund, and the aggregate remaining fund information of Kent County Road Commission (the "Road Commission") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated February 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Road Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of
County Road Commissioners
Kent County Road Commission

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moreau, PLLC

February 19, 2019