Oceana County Road Commission
Hart, Michigan

FINANCIAL STATEMENTS

December 31, 2017

SK&T

STEVENS KIRINOVIC & TUCKER P.C.

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The membership in the plan at December 31, 2017, is as follows:

Retirees and Beneficiaries receiving benefits	5
Inactive employees not receiving benefits	5
Active plan members	32
	42

Commission's contribution equaled the required contribution in accordance with the funding policy above. Employees are not required to contribute to the plan.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Commission provides certain retiree health care benefits and life insurance benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. Oceana County Road Commission's OPEB Plan is a single employer plan established and administered by Oceana County Road Commission and can be amended at its discretion. The following are the Governmental Accounting Standards Board (GASB) required disclosures and these disclosures have been implemented prospectively by the Commission. In accordance with the union agreement and personnel policy, effective January 1, 1996, upon retirement each employee will be eligible for continuation of subscriber health insurance. Between the age of 62 and 65, the Commission will pay 100% of the subscriber benefit. This benefit will expire upon reaching the age of 65. After age 65, for health insurance to continue the employee is required to pay 100% of the premium amount applicable to their coverage on a monthly basis to the Commission. The Commission remits the full premium to the insurance carrier. The plan does not issue a separate stand-alone financial statement.

Plan Membership

Membership in the plan at December 31, 2017, the date of the latest plan valuation, is as follows:

Retirees and survivors	34
Active plan members	27
	61

Benefits Provided

The Commission provides certain retiree health care benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. Benefits are provided to all eligible union and administrative employees.

The Commission's general policy is to finance these benefits on a pay as you go basis, but as financially able, they will contribute additional funds to a trust held by a third-party administrator to assist with the future funding of this liability.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Benefits Provided - Continued

The Commission has purchased term life insurance for almost all full-time employees, per the union agreement and personnel policy. Upon retirement, the insurance continues at a lower rate of coverage according to the following:

Retired while under age 70	$ 3,000
Retired while under age 70-74	2,500
Retired while under age 75-79	1,500
Retired at age 80 and above	1,000

Contributions

For the year ended December 31, 2017, the Commission expended $67,222 for retiree health insurance, with nothing being reimbursed by retirees, and $11,261 in life insurance premiums. The Commission makes contributions to the extent possible but has no obligation to make contributions in advance of when the premiums are due for payment.

The Commission provides 100% of the contributions made in the Retiree Employees Healthcare Plan.

Investment Policy

The Commission may invest and reinvest the assets of the plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law and, to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. Michigan Compiled Laws, Section 38.1121, authorizes the Commission to invest plan assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Commission's plan fund investments are in accordance with statutory authority. It is the policy of the Commission to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement 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 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 for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return (including inflation)
Global equity	67.90%	7.35%
Global fixed income	28.00%	1.66%
Real assets	2.50%	4.53%
Diversifying strategies	1.60%	1.52%

The sum of each target allocation times its long-term expected rate is 5.42%

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Summary of Significant Accounting Policies

For purposes of measuring the net other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the Commission's fiduciary net position have been determined on the same basis as they are reported for the Commission. 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.

Funding Progress

For the year ended December 31, 2017, the Commission has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of December 31, 2017. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The Commission's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	$ 319,392
Interest on net OPEB obligation	20,690
Adjustment to ARC	(163,998)
Annual OPEB cost (expense)	176,084
Amounts contributed:	
Payments of current premiums (gross of employee reimbursements)	78,483
Increase in net OPEB obligation	97,601
Net OPEB obligation - Beginning of year	644,544
Net OPEB obligation - End of year	$ 742,145

The Commission's annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, were as follows:

	2015	2016	2017
Annual OPEB costs	$ 90,612	$ 89,690	$ 176,084
Percentage contributed	33.7%	54.7%	44.6%
Net OPEB obligation	$ 603,884	$ 644,544	$ 742,145

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress - continued

The Commission's current funding progress of the plan as of December 31 is as follows:

	2011	2014	2017
Fair value of assets	$ 40,842	$ 91,081	$ 112,408
Total OPEB Liability	1,223,567	888,443	1,151,147
Net OPEB Liability	1,182,725	797,362	1,038,739
Funded ratio	3.3%	10.3%	9.8%

Plan's Net OPEB Liability

Total OPEB liability	$ 1,151,147
Plan fiduciary net position	112,408
Plan's net OPEB liability	$ 1,038,739
Plan fiduciary net position as a percentage of total OPEB liability	9.76%

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Included in investment rate of return.
Salary increases	2.00%
Investment rate of return	5.42%, including inflation.
Mortality	As set forth in IRS Regulations for 2018 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.21%. The projection of cash flows used to determine the discount rate assumed that Road Commission contributions will be up to $40,000 in 2018 and $0 in subsequent years. Based on those assumptions, the retirement plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. December 31, 2017, is the first year of required compliance with GASB 74, so there is no required discount rate change to disclose.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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

The following presents the net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.21 percent) or 1-percentage-point higher (4.21 percent) than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	$ 1,113,418	$ 1,038,739	$ 971,937

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

The following presents the net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (2.21 percent) or 1-percentage-point higher (4.21 percent) than the current discount rate:

	1% Decrease	Current Trend	1% Increase
Net OPEB liability	$ 982,039	$ 1,038,739	$ 1,103,267

NOTE H: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are legal actions pending against the Commission. Due to the inconclusive nature of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by Commission management and legal counsel to be immaterial.

NOTE I: RISK MANAGEMENT

The Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to property, general liability, trunkline liability, excess liability, auto liability, errors and omissions, directors' and officers' liability, and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Commission has not been informed of any special assessments being required.