

**KALKASKA COUNTY ROAD COMMISSION
OPEB BENEFITS**

**ACCOUNTING REPORT AND VALUATION
AS PROVIDED FOR UNDER THE ALTERNATE CALCULATION PROVISIONS OF
GASB STATEMENTS NO. 43 & 45**

*For the Period
January 1, 2016 to December 31, 2016*

Prepared by:

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INTRODUCTION

To the Board of the Kaskaska County Road Commission:

Burnham & Flower Group is a full-service insurance agency providing group benefits and and benefits consulting to governmental entities. In addition, we provide benefits administration for health and retirement plans through our third-party administration (TPA) department.

An employer with fewer than 100 plan members has the option to use the simplified alternative calculation method under GASB 45 instead of obtaining an actuarial valuation. This report was prepared by Burnham & Flower TPA team members using the alternative calculation method with information provided by the employer. It is not an actuarial valuation.

Burnham & Flower's TPA staff have acquired knowledge of the alternate calculation method through training, research and work experience. These employees are not required to hold the certification of an Enrolled Actuary to complete the alternate calculation process.

The calculations summarized in this report require assumptions about future events. In all circumstances, we have endeavored to use assumptions that are reasonable and appropriate given the intended purpose of the report. However, there may be other assumptions that would also be both reasonable and appropriate and would return a different result.

Prepared by:

The logo for Burnham & Flower Insurance Group. It features the company name "Burnham & Flower" in a serif font, with "INSURANCE GROUP" in a smaller, all-caps sans-serif font below it. A thin horizontal line is positioned above the company name.

KALKASKA COUNTY ROAD COMMISSION OPEB BENEFITS

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About GASB 45

Governmental Accounting Standards Board Statement No. 45 ("GASB 45") requires governmental entities to change the way the cost of Other Post-Employment Benefits (OPEBs) are reported. Currently, most governmental entities both finance and report OPEB costs as they are incurred. However, GASB believes that the cost of such benefits should be associated with the period in which those benefits are earned by the participant, rather than when the cost associated with providing those benefits are paid.

GASB 45 Effective Dates

The provisions of GASB will be phased in over a period of three years. Although GASB does encourage early implementation, the timetable for required compliance is as follows:

- Phase 1 governments (those with total annual revenue of more than \$100 million)
 - Statement is effective for periods beginning after December 15, 2006
- Phase 2 governments (total annual revenue between \$10 million and \$100 million)
 - Statement is effective for periods beginning after December 15, 2007
- Phase 3 governments (total annual revenue of less than \$10 million)
 - Statement is effective for periods beginning after December 15, 2008

About The Alternative Measurement Method

Under certain circumstances, a single employer that operates a Plan with less than 100 total members (including active employees, inactive employees who are not yet receiving benefits, retirees, and beneficiaries) may apply a simplified measurement method in lieu of obtaining an actuarial valuation. This alternate calculation requires the same broad measurement steps as would be necessary in the actuarial process, but allows an organization to utilize a set of predetermined assumptions that simplify the calculations necessary to determine the OPEB liability. This liability must be represented in the organization's financial statements in the same manner as the traditional actuarial valuation.

Some Important Notes on Funding:

- GASB 45 does not change the cost or any of the provisions that relate to providing OPEBs. Only the timing and method of recognizing these costs is addressed.
- GASB 45 does not require an organization to set aside assets to fund OPEBs. Employers may continue to fund the cost of benefits on a "pay as you go" basis. However, GASB 45 requires that an organization recognize any liability that results from the application of GASB 45 as an unfunded liability. Any pre-funding the employer accumulates in a separate trust will directly reduce the amount of unfunded liability the organization must recognize on its balance sheet.
- In addition, to the item above, there is yet another benefit to prefunding. GASB specifies a Discount Rate of 4% to be used in the Alternate Calculation. However, if assets are set aside, GASB allows the organization to increase the Discount Rate to one of the following: 1) The actual rate of return on the GASB Trust (if the ARC is fully funded each year) or 2) a blended rate (if the ARC is partially funded). An increase in the Discount Rate will in turn lower the ARC in the years following the initial funding.

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ASSUMPTIONS FOR OPEB COST

The following assumptions were used in the preparation of the alternate calculation and are considered to be reasonable for this plan:

FOR VALUATION OF THE ANNUAL REQUIRED CONTRIBUTION

ACTUARIAL COST METHOD: Entry Age Cost Method/Level Percentage of Payroll

DISCOUNT RATE:	4.00%
MORTALITY PRIOR TO RETIREMENT:	None
TURNOVER PRIOR TO RETIREMENT:	See Table 1
EXPECTED FUTURE WORKING LIFE:	See Table 2
SALARY SCALE:	3.00%
POST RETIREMENT INTEREST RATE:	4.00%
POST RETIREMENT MORTALITY:	See Table 3
HEALTH CARE INFLATION RATE:	NATIONAL HEALTH EXPENDITURES TABLE 3; Calendar Years 2008-2024

FOR DETERMINATION OF CURRENT LIABILITY

INTEREST ON NET OPEB OBLIGATION: 4.00%

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NOTES TO EMPLOYER'S FINANCIAL STATEMENTS:

1. The Measurement Year for this Plan begins: January 1, 2016
The date of initial application of GASB 43/45 is: January 1, 2008
2. The demographic assumptions used (retirement and termination rates, and salary increases, if any) are as of: December 31, 2016
3. The Kalkaska County Road Commission Retiree Medical Plan is a single-employer Plan administered by the Road Commission and can be amended at its discretion.
4. At the time of this reporting, membership of the plan consisted of the following:

Active Plan Members	0
Retirees and beneficiaries receiving benefits	20
Total Plan Members	<u>20</u>
5. The Road Commission has the authority to establish the funding policy for the Plan, and to amend the obligations of both the Road Commission and members.
6. Active members are not obligated to make contributions to the Plan at this time.
7. As of the date of this reporting, the organization has elected to make contributions to the Trust as disclosed in Schedule 1 of this report. All assets are held on an unallocated basis for the benefit of all participants.

KALKASKA COUNTY ROAD COMMISSION OPEB BENEFITS

DETERMINATION OF ANNUAL REQUIRED CONTRIBUTION (ARC)

Using the Entry Age Cost Method and the UAAL Amortized as a Level Percentage of Payroll

Normal Cost Component		
Normal Cost	\$	-
Interest	\$	-
Total Normal Cost	<u>\$</u>	<u>-</u>
Amortization Component		
AAL	\$	1,523,872.99
Less: Assets	\$	-
UAAL	<u>\$</u>	<u>1,523,872.99</u>
Divided by PV factor		<u>26.1695</u>
Amortization payment	<u>\$</u>	<u>58,231.00</u>
Interest	\$	2,329.00
Total Amortization Payment	\$	60,560.00
Annual Required Contribution	<u><u>\$</u></u>	<u><u>60,560.00</u></u>

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ANNUAL COST FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)

This reconciliation must be disclosed in the footnotes
to the sponsor's financial statements.

1	Annual Required Contribution	\$ 60,560.00
2	Interest on Net OPEB Obligation	\$ 39,166.84
3	Adjustments to ARC *	<u>\$ 442,578.00</u>
4	Annual OPEB Cost (Line 1 + Line 2 - Line 3)	\$ (342,851.16)
5	Contributions Made **	<u>\$ 97,796.73</u>
6	Increase/Decrease in net OPEB Obligation (Line 4 - Line 5)	\$ (440,647.89)
7	Net OPEB obligation (beginning of year) **	<u>\$ 979,171.00</u>
8	Net OPEB obligation (end of year) (Line 6 + Line 7)	\$ 538,523.11

* ARC adjustment includes 421,044 adjustment based on significant change in AAL due to benefit changes in last reporting period.

** Anticipated annual benefit payments (premiums) on behalf of retired participants and qualified trust contributions.

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SCHEDULE 1

ASSET (GAIN) OR LOSS

1 Fair value of Assets at end of year	\$ -
2 Actual Distributions	\$ -
3 Actual or Accrued contributions	\$ -
4 Fair value at beginning of year	<u>\$ -</u>
5 Actual return on Assets <i>(Line 1 + Line 2 - Line 3 - Line 4)</i>	\$ -
6 Expected return on Assets <i>(Based on Interest Rate Assumption on Page II)</i>	<u>\$ -</u>
7 Asset (gain) or loss = 6 - 5 <i>(An asset gain is shown as a negative number)</i>	\$ -

As of the date of this reporting, the Plan had no assets set aside in Trust.

Table 1—Probability of Remaining Employed until Assumed Retirement Age, by Age—Default Values

Age	Assumed Retirement Age					
	50 and over	49	48	47	46	45
20	0.296	0.300	0.304	0.309	0.314	0.319
21	0.321	0.326	0.330	0.335	0.340	0.346
22	0.349	0.354	0.359	0.364	0.370	0.376
23	0.379	0.384	0.389	0.395	0.401	0.408
24	0.410	0.416	0.421	0.428	0.434	0.441
25	0.440	0.446	0.453	0.460	0.467	0.474
26	0.472	0.478	0.485	0.493	0.500	0.508
27	0.503	0.510	0.517	0.525	0.533	0.542
28	0.534	0.541	0.549	0.558	0.566	0.575
29	0.564	0.572	0.580	0.589	0.598	0.607
30	0.593	0.602	0.610	0.620	0.629	0.639
31	0.622	0.631	0.640	0.650	0.660	0.670
32	0.650	0.659	0.669	0.679	0.689	0.700
33	0.677	0.687	0.696	0.707	0.718	0.730
34	0.703	0.713	0.723	0.734	0.745	0.758
35	0.729	0.739	0.749	0.761	0.772	0.785
36	0.753	0.764	0.775	0.787	0.799	0.812
37	0.777	0.788	0.799	0.811	0.824	0.837
38	0.799	0.811	0.822	0.835	0.847	0.861
39	0.821	0.832	0.844	0.857	0.870	0.884
40	0.841	0.853	0.865	0.878	0.891	0.906
41	0.860	0.873	0.885	0.899	0.912	0.927
42	0.879	0.891	0.904	0.918	0.932	0.947
43	0.896	0.909	0.922	0.936	0.950	0.965
44	0.912	0.925	0.938	0.953	0.967	0.983
45	0.928	0.941	0.955	0.969	0.984	1.000
46	0.943	0.957	0.970	0.985	1.000	1.000
47	0.958	0.971	0.985	1.000	1.000	1.000
48	0.972	0.986	1.000	1.000	1.000	1.000
49	0.986	1.000	1.000	1.000	1.000	1.000
50	1.000	1.000	1.000	1.000	1.000	1.000
51	1.000	1.000	1.000	1.000	1.000	1.000
52	1.000	1.000	1.000	1.000	1.000	1.000
53	1.000	1.000	1.000	1.000	1.000	1.000
54	1.000	1.000	1.000	1.000	1.000	1.000
55	1.000	1.000	1.000	1.000	1.000	1.000
56	1.000	1.000	1.000	1.000	1.000	1.000
57	1.000	1.000	1.000	1.000	1.000	1.000
58	1.000	1.000	1.000	1.000	1.000	1.000
59	1.000	1.000	1.000	1.000	1.000	1.000
60	1.000	1.000	1.000	1.000	1.000	1.000
61	1.000	1.000	1.000	1.000	1.000	1.000
62	1.000	1.000	1.000	1.000	1.000	1.000
63	1.000	1.000	1.000	1.000	1.000	1.000
64	1.000	1.000	1.000	1.000	1.000	1.000
65	1.000	1.000	1.000	1.000	1.000	1.000
66	1.000	1.000	1.000	1.000	1.000	1.000
67	1.000	1.000	1.000	1.000	1.000	1.000
68	1.000	1.000	1.000	1.000	1.000	1.000
69	1.000	1.000	1.000	1.000	1.000	1.000
70	1.000	1.000	1.000	1.000	1.000	1.000
71	1.000	1.000	1.000	1.000	1.000	1.000
72	1.000	1.000	1.000	1.000	1.000	1.000
73	1.000	1.000	1.000	1.000	1.000	1.000
74	1.000	1.000	1.000	1.000	1.000	1.000
75	1.000	1.000	1.000	1.000	1.000	1.000

Table 3—Mortality

United States Life Tables - 2007 version

	Males		Females			Males		Females	
0-1	0	75.4	0	80.4	80-81	80	7.9	80	9.4
1-2	1	74.9	1	79.9	81-82	81	7.5	81	8.8
2-3	2	74.0	2	78.9	82-83	82	7.0	82	8.3
3-4	3	73.0	3	78	83-84	83	6.6	83	7.8
4-5	4	72.0	4	77	84-85	84	6.2	84	7.3
5-6	5	71.0	5	76	85-86	85	5.8	85	6.8
6-7	6	70.0	6	75	86-87	86	5.4	86	6.4
7-8	7	69.1	7	74	87-88	87	5.1	87	6
8-9	8	68.1	8	73	88-89	88	4.8	88	5.6
9-10	9	67.1	9	72	89-90	89	4.4	89	5.2
10-11	10	66.1	10	71	90-91	90	4.1	90	4.8
11-12	11	65.1	11	70	91-92	91	3.9	91	4.5
12-13	12	64.1	12	69	92-93	92	3.6	92	4.2
13-14	13	63.1	13	68	93-94	93	3.4	93	3.9
14-15	14	62.1	14	67.1	94-95	94	3.1	94	3.6
15-16	15	61.1	15	66.1	95-96	95	2.9	95	3.3
16-17	16	60.2	16	65.1	96-97	96	2.7	96	3.1
17-18	17	59.2	17	64.1	97-98	97	2.5	97	2.9
18-19	18	58.3	18	63.1	98-99	98	2.4	98	2.7
19-20	19	57.3	19	62.2	99-100	99	2.2	99	2.5
20-21	20	56.4	20	61.2	100+	100	2.1	100	2.3
21-22	21	55.5	21	60.2					
22-23	22	54.5	22	59.2					
23-24	23	53.6	23	58.3					
24-25	24	52.7	24	57.3					
25-26	25	51.8	25	56.3					
26-27	26	50.9	26	55.4					
27-28	27	49.9	27	54.4					
28-29	28	49.0	28	53.4					
29-30	29	48.1	29	52.4					
30-31	30	47.1	30	51.5					
31-32	31	46.2	31	50.5					
32-33	32	45.3	32	49.5					
33-34	33	44.3	33	48.6					
34-35	34	43.4	34	47.6					
35-36	35	42.5	35	46.7					
36-37	36	41.5	36	45.7					
37-38	37	40.6	37	44.7					
38-39	38	39.7	38	43.8					
39-40	39	38.8	39	42.8					
40-41	40	37.8	40	41.9					
41-42	41	36.9	41	40.9					
42-43	42	36.0	42	40					
43-44	43	35.1	43	39.1					
44-45	44	34.2	44	38.1					
45-46	45	33.3	45	37.2					
46-47	46	32.4	46	36.3					
47-48	47	31.6	47	35.4					
48-49	48	30.7	48	34.5					
49-50	49	29.8	49	33.6					
50-51	50	29.0	50	32.7					
51-52	51	28.1	51	31.8					
52-53	52	27.3	52	30.9					
53-54	53	26.5	53	30					

Table 4

GASB Terms Defined

A brief glossary of terms commonly used by GASB practitioners, actuaries, and auditors.

Actuarial Accrued Liability (AAL): The value of OPEB benefits already earned by each eligible employee for that employee's past service. Also, the Actuarial Present Value of Total Projected Benefits not provided for by future normal costs.

Annual OPEB Cost: An accrual-basis measure of an employer's periodic cost of offering OPEB. It is the current period's ARC, plus any interest on the previous period's Net OPEB obligation, minus any adjustments necessary to the ARC.

Annual Required Contribution (ARC): The level of employer contribution that would be required on an ongoing basis to reduce the employer's net OPEB obligation to zero. The ARC has two components: 1) The normal cost and 2) the amortized amount of the UAAL for both active employees and retirees. In other words, it is the amount needed to pay benefits as they come due, as well as to amortize additional liability over a specified period (which cannot be more than 30 years.)

Employer Contributions: Contributions made for OPEB in relation to the ARC. An employer has made a contribution in relation to the ARC if the employer has:

- ❖ Made a payment of benefits directly to or on behalf of a retiree or beneficiary;
- ❖ Made premium payments to an insurer; or
- ❖ Irrevocably transferred assets to a trust in which plan assets are dedicated to providing benefits to retirees and/or beneficiaries. Assets that employers merely set aside for future benefits do not qualify as contributions for purposes of GASB 45.

Net OPEB Obligation (or asset): The difference arrived at by subtracting all employer contributions from the annual OPEB cost. The net OPEB obligation is reported as a liability (or asset) in the accrual-basis financial statements.

Normal Cost: That portion of the Actuarial Present Value that is allocated to each valuation year by an actuarial cost method. Under most actuarial methods, Normal cost can be thought of as the cost for OPEB being earned by employees in exchange for current service. Any employer with at least one OPEB-eligible employee will have a Normal cost each year.

Pay-As-You-Go: A method of financing an OPEB under which the contributions to the plan are generally made at about the same time and are equal to the amount of retiree benefit payments and expenses coming due. Employers that finance benefits on a pay-as-you-go basis typically make payments directly to a provider.

Plan Assets: Financial resources that have been segregated into a trust for the payment of benefits in accordance with the terms of the plan. Employer contributions to the trust are irrevocable, and assets are dedicated to providing benefits to retirees and their beneficiaries. Plan assets are also legally protected from creditors of the employer. Assets set aside by employers for OPEB, but not deposited in a trust, are considered *employer assets* and not Plan assets.

Plan Liabilities: Obligations payable by the plan at the reporting date. These obligations include benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

Unfunded Actuarial Accrued Liability (UAAL): The portion of the AAL over and above the Actuarial Value of Plan Assets. The UAAL is determined by three things: unfunded past Normal costs, actuarial gains and losses (differences between actuarial assumptions and actual experience), and changes to the amount of promised benefits.