

Muskegon County Road Commission

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended September 30, 2014



Muskegon County Road Commission

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**BRICKLEY DELONG**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

December 11, 2014

Board of County Road Commissioners  
Muskegon County Road Commission  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Muskegon County Road Commission, a component unit of the County of Muskegon, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the 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. 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.

Board of County Road Commissioners  
Muskegon County Road Commission  
December 11, 2014  
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**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Muskegon County Road Commission, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 - 8 and 29 – 31 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, who 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 supplementary 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 Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon County Road Commission’s basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Muskegon, Michigan

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

Our discussion and analysis of the Muskegon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2014. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplemental information that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements, government-wide statements and fund statements.

### REPORTING THE ROAD COMMISSION AS A WHOLE

#### Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the Road Commission's assets/deferred outflows of resources and liabilities/deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net position and how they changed. The reader can think of the Road Commission's net position (the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, additional non-financial factors, such as changes in the condition of the Road Commission's roads and changes in the law related to gas taxes and their distribution, need to be considered.

#### Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net position increased from \$71,748,243 to \$75,202,680 for the year ended September 30, 2014. The net position and change in net position are summarized below.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Net Position

Restricted net position is net position that has constraints: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all net position (except for net investment in capital assets) is considered restricted.

Total net position increased by \$3,454,437 in 2014. The net investment in capital assets category of net position increased by \$1,732,219 as current year capital additions exceeded depreciation. Restricted net position, which is restricted for County roads, increased by \$1,722,218.

Net position is as follows:

	2014	2013
Assets		
Current and other assets	\$ 11,700,181	\$ 7,648,153
Capital assets	<u>67,581,446</u>	<u>66,049,227</u>
Total assets	<u>79,281,627</u>	<u>73,697,380</u>
Liabilities		
Current liabilities	810,289	1,061,862
Noncurrent liabilities	<u>3,268,658</u>	<u>887,275</u>
Total liabilities	<u>4,078,947</u>	<u>1,949,137</u>
Net position		
Net investment in capital assets	67,581,446	65,849,227
Restricted	<u>7,621,234</u>	<u>5,899,016</u>
Total net position	<u>\$ 75,202,680</u>	<u>\$ 71,748,243</u>

### Change in Net Position

- **Federal Aid** – Federal Aid funding is awarded for special projects only and is not considered part of our routine operating funding. The availability of funding provided for in the Federal Transportation budget and the existence of projects that are eligible for such funding opportunities will fluctuate year to year in this classification. The Road Commission received \$1,359,166 from a variety of Federal Funding sources in 2014. This represents a increase of \$563,586 from 2013.
- **State Aid** – The main source of state aid that the Road Commission receives comes from the Michigan Transportation Fund (MTF). The Road Commission's allotment from MTF of \$9,413,472 was only a slight increase (2.71%) over the previous year.

Another source of State Aid is special project funding and as mentioned above in Federal Aid this funding source fluctuates depending on the State's budget and project eligibility. In 2014, the Road Commission received \$1,100,000 from the Priority Road Investment Program, a special funding source, which was used to fund chip seal operations throughout the County.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

A summary of changes in net position is as follows:

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Licenses and permits	\$ 36,837	\$ 31,999
Federal aid	1,359,166	795,580
State aid	12,655,280	9,736,795
Contributions from local units	1,129,169	732,452
Charges for services	3,133,490	2,843,044
Investment earnings	7,797	5,744
General revenues		
Gain on disposal of capital assets	-	43,661
Other	110,639	134,558
Total revenues	<u>18,432,378</u>	<u>14,323,833</u>
Expenses		
Primary road routine and preventative maintenance	6,844,034	6,733,910
Local road routine and preventative maintenance	4,557,783	4,410,461
State trunkline	2,715,085	2,137,251
Net administrative	433,172	489,210
Reimbursable services	419,867	842,226
Interest on long term debt	8,000	16,225
Total expenses	<u>14,977,941</u>	<u>14,629,283</u>
Change in net position	3,454,437	(305,450)
Net position at beginning of year	<u>71,748,243</u>	<u>72,053,693</u>
Net position at end of year	<u>\$ 75,202,680</u>	<u>\$ 71,748,243</u>

### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended September 30, 2014, the fund balance of the General Operations Fund increased by \$1,494,023, as compared to a decrease of \$635,910 in the prior year.

Total operating revenues were \$18,432,378, an increase of \$4,108,545 as compared to last year. The net increase in operating revenues is primarily due to an increase in Federal Aid, State Aid, Contributions from Local Units, and Charges for Services.

Total expenditures for fiscal 2014 were \$16,938,355, as compared to \$14,959,743 in 2013 resulting in a net increase of \$1,978,612. Expenditures in Public Works increased by \$3,549,321 in 2014.

In 2014, Capital purchases were less than Equipment Retirements and Depreciation combined by \$529,537 which is \$1,543,138 less than 2013.

Total revenues were more than expenditures for 2014 resulting in an increase to the Road Commission's fund balance of \$1,494,023.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

A summary of changes in the General Operations Fund are as follows:

	<u>2014</u>	<u>2013</u>
Revenues		
Licenses and permits	\$ 36,837	\$ 31,999
Federal aid	1,359,166	795,580
State aid	12,655,280	9,736,795
Contributions from local units	1,129,169	732,452
Charges for services	3,133,490	2,843,044
Investment earnings	7,797	5,744
Other revenue	110,639	178,219
Total revenues	<u>18,432,378</u>	<u>14,323,833</u>
Expenditures		
Public works	17,259,892	13,710,571
Capital outlay (net)	(529,537)	1,013,601
Debt service	208,000	235,571
Total expenditures	<u>16,938,355</u>	<u>14,959,743</u>
Net change in fund balance	1,494,023	(635,910)
Fund balance at beginning of year	<u>5,705,488</u>	<u>6,341,398</u>
Fund balance at end of year	<u>\$ 7,199,511</u>	<u>\$ 5,705,488</u>

### BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect significant changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditure requests throughout the year.

The 2013/2014 budget was amended three times during the course of the fiscal year. The first amendment was made in April to realize the State's Special Winter Operations payment of \$588,239 to offset the extraordinary costs incurred for the current winter season. The second amendment was made in August to reflect the increase in the State Trunkline budget of \$770,772 to cover overruns in the winter operations line item and increased surface maintenance operations.

The third budget adjustment was made in September in an attempt to anticipate actual revenue and expenditures.

The final budget adjustments increased revenues by \$1,525,599 and expenses by \$205,770 resulting in a net change of \$1,319,829. The original budget projected a decrease in fund balance of \$770,417. The amended net change of \$1,319,829 adjusted the budgeted impact to fund balance to \$858,377.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

MTF revenues are traditionally forecasted conservatively as many factors affect the motoring public's consumption of fuel and vehicle purchases and thus impact the revenues generated by fuel and license sales. The MTF revenues budget was increased by \$308,965. Federal and State Aid were increased by \$1,580,755. The special funding award of \$1,100,000 noted above contributed to the bulk of this increase.

On the expenditure side routine maintenance and preservation project costs combined were increased by \$489,692. The budgeted increase in equipment rental credits of \$735,000 offset the increase operations expenses.

The adjustments in both revenues and expenses were fairly consistent and reflected the changes to revenue generation and the additional related expenses for the changes in our maintenance and preservation operations.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

	<u>2014</u>	<u>2013</u>
Capital assets, not being depreciated		
Land and improvements	\$ 25,324,757	\$ 24,723,713
Capital assets being depreciated		
Land improvements	92,617	62,094
Buildings and improvements	4,806,842	4,796,863
Road equipment	12,253,694	11,793,951
Other equipment	3,236,191	3,201,527
Infrastructure and improvements	<u>67,709,510</u>	<u>65,038,019</u>
Total capital assets being depreciated	88,098,854	84,892,454
Less accumulated depreciation	<u>(45,842,165)</u>	<u>(43,566,940)</u>
Total capital assets, being depreciated, net	<u>42,256,689</u>	<u>41,325,514</u>
Total capital assets, net	<u>\$ 67,581,446</u>	<u>\$ 66,049,227</u>

Current year's major additions included the following:

Preservation and Bridge projects	\$ 5,162,259
Trucks and Equipment Purchases	459,743

Additional information on capital assets can be found in note D of the notes to financial statements.

#### Debt

As of September 30, 2014, the Road Commission had \$377,281 in long-term debt outstanding. This is a decrease of \$174,316, which occurred due to normal debt repayments. The Road Commission made the final payment on the Michigan Transportation Fund notes during 2014. The long-term debt outstanding is comprised entirely of compensated absences of \$377,281.

Additional information on long-term debt can be found in note E of the notes to the financial statements.

# **MUSKEGON COUNTY ROAD COMMISSION**

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## **Management's Discussion and Analysis**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 2014/2015 budget as presented is similar in many respects to last year's document in that we have attempted to provide as much service as possible to the motoring public and to focus on pavement preservation. In one sense the budgeting process is a very disheartening exercise given the woefully inadequate resources provided to us through Act 51 Revenues. The true system need where we would be able to provide an improving road network condition approaches a 50-60% increase in revenue.

Some things that should be highlighted are a modest 1% increase in MTF, an influx of \$2.1 million in 3R and Priority Road Improvement Funds and no increase in the state maintenance contract. We have budgeted approximately \$1.3 million for chip seal on primary and local roads and have budgeted winter snow and ice control at more historical levels.

On the equipment side we have budgeted for 3 plow trucks and a new emulsion distributor for the chip seal program. This allows us to continue to keep our fleet in a good overall condition.

Given the tremendous need and continued deterioration of the system, and despite our continued best efforts at preservation, there is clear evidence that the system of financing our public highway system in Michigan is severely broken. We urge readers to renew efforts at educating and convincing those elected officials, federal, state, and local that hold the statutory ability to fix or change the system to do so while we still have something to work with.

### **CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

Muskegon County Road Commission  
**STATEMENT OF NET POSITION**  
September 30, 2014

**ASSETS**

Current assets	
Cash and investments	\$ 4,690,543
Accounts receivable	
Federal	128,913
State trunkline maintenance	165,642
State Department of Transportation	
Michigan Transportation Fund	1,624,758
Other	1,248,212
State Department of Natural Resources	28,087
State Department of Environmental Quality	330,708
Due on county road agreements	599,158
Site remediation	116,123
Other	77,618
Inventories	
Road materials	1,090,044
Equipment materials and parts	657,736
Prepaid items	143,635
Total current assets	10,901,177
Noncurrent assets	
Capital assets, net	
Nondepreciable	25,324,757
Depreciable	42,256,689
Net pension asset	693,129
Net other postemployment benefits asset	105,875
Total noncurrent assets	68,380,450
Total assets	79,281,627

**LIABILITIES**

Current liabilities	
Accounts payable	433,837
Accrued liabilities	139,452
Compensated absences - due within one year	237,000
Total current liabilities	810,289
Noncurrent liabilities	
Advances	
State trunkline	
Equipment purchase	405,889
Maintenance	180,129
State Department of Transportation	2,220,000
Unearned revenues	
Forest roads	322,359
Compensated absences - less amounts due within one year	140,281
Total noncurrent liabilities	3,268,658
Total liabilities	4,078,947

**NET POSITION**

Net investment in capital assets	67,581,446
Restricted for county roads	7,621,234
Total net position	\$ 75,202,680

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2014

Program expenses	
Primary road routine and preventative maintenance	\$ 6,844,034
Local road routine and preventative maintenance	4,557,783
State trunkline	2,715,085
Net administrative	433,172
Reimbursable services	419,867
Interest on long-term debt	8,000
Total program expenses	<u>14,977,941</u>
Program revenues	
Charges for services	
Licenses and permits	36,837
Charges for services	3,133,490
Operating grants and contributions	
Michigan Transportation Funds	9,413,473
Investment earnings	7,797
Capital grants and contributions	
Federal grants	1,359,166
State grants	3,241,807
Contributions from local units	1,129,169
Total program revenues	<u>18,321,739</u>
Net program revenues	3,343,798
General revenues	
Other	<u>110,639</u>
Change in net position	3,454,437
Net position at October 1, 2013	<u>71,748,243</u>
Net position at September 30, 2014	<u><u>\$ 75,202,680</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**BALANCE SHEET**  
September 30, 2014

	<b>General Operations Fund</b>
<b>ASSETS</b>	
Cash and investments	\$ 4,690,543
Receivables	
Federal	128,913
State trunkline maintenance	165,642
State Department of Transportation	
Michigan Transportation Fund	1,624,758
Other	1,248,212
State Department of Natural Resources	28,087
State Department of Environmental Quality	330,708
Due on county road agreements	599,158
Site remediation	116,123
Other	77,618
Inventories	
Road materials	1,090,044
Equipment materials and parts	657,736
Prepaid items	143,635
Total assets	<b>\$ 10,901,177</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 433,837
Accrued liabilities	139,452
Advances	
State trunkline	
Equipment purchase	405,889
Maintenance	180,129
State Department of Transportation	2,220,000
Unearned revenues	
Forest roads	322,359
Total liabilities	3,701,666
<b>FUND BALANCE</b>	
Nonspendable	
Inventories	1,747,780
Prepaid items	143,635
Restricted for county roads	5,308,096
Total fund balance	7,199,511
Total liabilities and fund balance	<b>\$ 10,901,177</b>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 September 30, 2014

Total fund balance—governmental funds		\$ 7,199,511
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain assets are not available resources and, therefore, are not reported in the governmental funds.		
Net pension asset	\$ 693,129	
Net other postemployment benefits asset	<u>105,875</u>	799,004
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Cost of capital assets	113,423,611	
Accumulated depreciation	<u>(45,842,165)</u>	67,581,446
Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences		<u>(377,281)</u>
Net position of governmental activities		<u><u>\$ 75,202,680</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
For the year ended September 30, 2014

	<u>General Operations Fund</u>
<b>REVENUES</b>	
Licenses and permits	\$ 36,837
Federal aid	1,359,166
State aid	12,655,280
Contributions from local units	1,129,169
Charges for services	3,133,490
Investment earnings	7,797
Other revenue	<u>110,639</u>
Total revenues	18,432,378
<b>EXPENDITURES</b>	
Current	
Public works	17,259,892
Capital outlay (net)	(529,537)
Debt service	<u>208,000</u>
Total expenditures	<u>16,938,355</u>
Net change in fund balance	1,494,023
Fund balance at October 1, 2013	<u>5,705,488</u>
Fund balance at September 30, 2014	<u><b>\$ 7,199,511</b></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2014

Net change in fund balance—total governmental funds \$ 1,494,023

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (4,164,949)	
Capital outlay	<u>5,697,168</u>	1,532,219

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt		200,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in net pension asset	260,699	
Change in other postemployment benefits	(6,820)	
Change in compensated absences	<u>(25,684)</u>	<u>228,195</u>

Change in net position of governmental activities		<u><u>\$ 3,454,437</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Muskegon County Road Commission (Road Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Road Commission's accounting policies are described below.

**Reporting Entity**

The Muskegon County Road Commission (Road Commission), which is established pursuant to the County Road Law (MCL 224.1), is governed by a five-member Board of County Road Commissioners appointed by the Muskegon County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

Generally accepted accounting principles require that if an entity is considered to be financially accountable for other organizations, those organizations should be included as component units in the entity's financial statements. Based on the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon. No organizations meet this criterion for the Road Commission and therefore none are included in the financial statements.

The Road Commission General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission's General Operations Fund.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the activities of the Road Commission. Governmental activities, which are normally supported by intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for external customers for support. The Road Commission does not have any business-type activities.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds columns.

The fund financial statements provide information about the Road Commission's governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Road Commission only has one fund, no separate columns have been provided.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Road Commission.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Road Commission are reported at fair value (generally based on quoted market prices).

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Road Commission to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Inventories and Prepaid Items***

All inventories are priced at cost as determined on the average unit cost method. The cost of such inventories is charged to road construction and maintenance, equipment repairs, and operations when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Road equipment, which are charged to projects based on the State-approved rental rate structure, have no minimum capitalization cost.

In the case of the initial capitalization of general infrastructure assets, the Road Commission chose to include all such items regardless of their acquisition date or amount. The Road Commission was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the Road Commission.

As the Road Commission constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	25 - 50
Road equipment	5 - 8
Other equipment	4 - 20
Infrastructure and improvements - roads	8 - 30
Infrastructure and improvements - bridges	20 - 50

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***Net Position Flow Assumption***

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

***Fund Balance Flow Assumptions***

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

***Fund Balance Flow 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 Road Commission itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Fund Balance Flow Policies—Continued***

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

**Revenues and Expenditures/Expenses**

***Program Revenues***

Amounts reported as programs revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

***Compensated Absences***

Road Commission employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the General Operations Fund. Pursuant to the Act, the Road Commission follows these procedures in establishing the budgetary information provided in the financial statements:

- a. The director of financial services submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the Road Commission to obtain public comments.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgetary Information—Continued**

- c. Prior to September 30, the budget and annual appropriations are legally adopted by the Board of Commissioners.
- d. Formal budget integration is employed as a management control device during the year for the General Operations Fund.
- e. Budgets as presented are prepared on the modified accrual basis of accounting.
- f. Budgetary control is exercised at the category level.
- g. The budgetary information presented can be amended during the year by an official action of the Board of Commissioners.
- h. All budget appropriations lapse at year end.

**Excess of Expenditures Over Appropriations**

During the year ended September 30, 2014, actual expenditures exceeded appropriations for primary road routine and preventive maintenance by \$49,404. These overexpenditures were funded with available fund balance.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Deposit and Investment Risks**

***Interest Rate Risk***

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit Risk***

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

***Concentration of Credit Risk***

The Road Commission does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

***Custodial Credit Risk – Deposits***

In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2014, \$4,522,450 of the Road Commission's bank balance of \$4,772,450 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Deposit and Investment Risks—Continued**

*Custodial Credit Risk – Investments*

The Road Commission does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

*Foreign Currency Risk*

The Road Commission is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2014 was as follows:

	<b>Balance October 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2014</b>
<b>Capital assets, not being depreciated:</b>				
Land and improvements	\$ 24,723,713	\$ 601,044	\$ -	\$ 25,324,757
<b>Capital assets, being depreciated:</b>				
Land improvements	62,094	30,523	-	92,617
Buildings and improvements	4,796,863	9,979	-	4,806,842
Road equipment	11,793,951	459,743	-	12,253,694
Other equipment	3,201,527	34,664	-	3,236,191
Infrastructure and improvements	65,038,019	4,561,215	1,889,724	67,709,510
Total capital assets, being depreciated	84,892,454	5,096,124	1,889,724	88,098,854
<b>Less accumulated depreciation:</b>				
Land improvements	38,727	3,281	-	42,008
Buildings and improvements	3,140,085	134,807	-	3,274,892
Road equipment	9,650,801	803,836	-	10,454,637
Other equipment	1,595,745	160,346	-	1,756,091
Infrastructure and improvements	29,141,582	3,062,679	1,889,724	30,314,537
Total accumulated depreciation	43,566,940	4,164,949	1,889,724	45,842,165
Total capital assets, being depreciated, net	41,325,514	931,175	-	42,256,689
Capital assets, net	<b>\$ 66,049,227</b>	<b>\$ 1,532,219</b>	<b>\$ -</b>	<b>\$ 67,581,446</b>

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE D—CAPITAL ASSETS—Continued**

**Depreciation**

Depreciation expense has been charged to programs of the Road Commission as follows:

**Governmental activities:**

Primary road	\$ 2,739,743
Local road	1,139,545
State trunkline	231,297
Administrative	54,364
	<b>\$ 4,164,949</b>

**NOTE E—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Road Commission for the year ended September 30, 2014:

	<b>Balance October 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance September 30, 2014</b>	<b>Due Within One Year</b>
Michigan Transportation Fund					
Notes	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
Compensated absences	351,597	444,109	418,425	377,281	237,000
Governmental activities long-term liabilities	<b>\$ 551,597</b>	<b>\$ 444,109</b>	<b>\$ 618,425</b>	<b>\$ 377,281</b>	<b>\$ 237,000</b>

**NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Defined Benefit Pension Plan**

***Plan Description***

The Road Commission is in an agent multiple-employer defined benefit pension plan (Plan) with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission  
7700 East Apple Avenue  
Muskegon, MI 49442

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—Continued**

***Funding Policy***

Plan members are not required to contribute to the Plan. The Road Commission is required to contribute at an actuarially-determined rate; the current rate is 13.29 to 32.98 percent of annual covered payroll depending on the Plan. The contributions requirements of plan members and the Road Commission are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

***Annual Pension Cost and Net Pension Asset***

For the year ended September 30, 2014, the Road Commission’s annual pension cost was \$683,940. Due to early funding in prior years, the Road Commission’s required contribution was \$644,639. The Road Commission’s actual contribution was \$300,000 greater than the required contribution. The following table shows the components of the Road Commission’s annual pension cost for the year, the amount actually contributed, and changes in the Road Commission’s net pension asset:

Annual required contribution	\$ 644,639
Interest on net pension asset	(34,594)
Adjustment to annual required contribution	<u>73,895</u>
Annual pension cost	683,940
Contributions made	<u>944,639</u>
Increase in net pension asset	260,699
Net pension asset at beginning of year	<u>432,430</u>
Net pension asset at end of year	<u><u>\$ 693,129</u></u>

**Three-Year Trend Information for MERS**

<u>Year Ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
09/30/12	\$ 562,000	100 %	\$ 256,821
09/30/13	596,000	134	432,430
09/30/14	645,000	146	693,129

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—Continued**

The required contribution was determined by an actuarial valuation of the Plan as of December 31, 2011 using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 13 percent, and (c) 1 percent to 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011 was 27 years. This period will be reduced by one year in each of the next seven valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

***Funding Status and Funding Progress***

As of December 31, 2013, the most recent actuarial valuation date, the plan was 74 percent funded. The actuarial accrued liability for benefits was approximately \$21,612,000, and the actuarial value of assets was approximately \$15,961,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$5,651,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,385,000, and the ratio of the UAAL to the covered payroll was 167 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Road Commission employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE G—OTHER POST-EMPLOYMENT BENEFITS**

**Retiree Healthcare Plan**

***Plan Description***

The Road Commission has a retiree healthcare funding vehicle (OPEB Plan) administered by the Burnham and Flower Group. The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The OPEB Plan provides health insurance to eligible retirees. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the OPEB Plan to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission  
7700 East Apple Avenue  
Muskegon, MI 49442

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE G—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

***Funding Policy***

The contribution requirements of plan members and the Road Commission are established and may be amended by the Board of County Road Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Road Commission. For the year ended September 30, 2014, the Road Commission contributed \$208,069 to the OPEB Plan, of which \$96,183 were direct payments for retiree insurance and \$111,886 were contributed to the trust, which is 97% of the other postemployment benefit (OPEB) cost.

***Annual OPEB Cost and Net OPEB Obligation***

The Road Commission’s OPEB cost is calculated based on the annual required contribution (ARC), an actuarially-determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission’s annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Road Commission’s net OPEB obligation:

Annual required contribution	\$ 208,069
Interest on net OPEB asset	(8,452)
Adjustment to annual required contribution	15,272
Net OPEB cost	214,889
Payments made to or on behalf of retirees	96,183
Contributions made to OPEB trust	111,886
Decrease in net OPEB asset	(6,820)
Net OPEB asset at beginning of year	112,695
Net OPEB asset at end of year	<b>\$ 105,875</b>

**Trend Information**

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
09/30/12	\$ 272,384	98 %	\$ 118,897
09/30/13	214,185	97	112,695
09/30/14	214,889	97	105,875

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE G—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

*Actuarial Methods and Assumptions*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB Plan as understood by the employer and OPEB Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of OPEB Plan members not contributing to the OPEB Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the September 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after 4 years. Both rates include a 5 percent inflation assumption. The OPEB Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2013 is 11 years.

*Funded Status and Progress*

As of September 30, 2013, the most recent actuarial valuation date, the OPEB Plan was 51 percent funded. The actuarial accrued liability for benefits was approximately \$2,037,000, and the actuarial value of assets was approximately \$1,046,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$991,000. Information on the covered payroll (annual payroll of active employees covered by the OPEB Plan) and the ratio of the UAAL to the covered payroll was not available.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE H—OTHER INFORMATION**

**Risk Management**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE H—OTHER INFORMATION—Continued**

**Risk Management—Continued**

The Road Commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission carries commercial insurance for employee health and accident insurance and for fuel storage tank systems. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE I—FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2014, the federal aid received and expended by the Road Commission was \$1,193,266 for contracted projects and \$165,900 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

**NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the Road Commission's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

**REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon County Road Commission  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
**SCHEDULE OF REVENUES**  
 General Operations Fund  
 For the year ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget- Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
Licenses and permits	\$ 30,000	\$ 30,000	\$ 36,837	\$ 6,837
Federal aid				
Surface Transportation Program	1,000,000	1,252,000	1,190,376	(61,624)
Economic development funds	3,000	3,000	2,735	(265)
Federal Emergency Management Agency	130,000	130,000	128,913	(1,087)
Other	35,000	37,000	37,142	142
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Urban road	1,340,000	1,360,000	1,357,786	(2,214)
Allocation	7,591,000	7,879,965	7,963,774	83,809
Snow removal	80,500	81,912	81,913	1
Critical Bridge	500,000	500,000	497,129	(2,871)
Other	345,126	2,250,000	2,133,744	(116,256)
Economic development				
Target industries	480,000	485,120	482,376	(2,744)
Rural primary	130,000	135,000	128,558	(6,442)
Contributions from local units				
Townships	1,189,276	1,040,730	1,129,169	88,439
Charges for services				
State trunkline				
Maintenance	1,900,000	2,710,000	2,715,085	5,085
Salvage sales	20,000	20,000	24,108	4,108
Other	385,000	425,930	394,297	(31,633)
Investment earnings	7,000	7,770	7,797	27
Other revenue				
Other	-	11,050	110,639	99,589
Total operating revenues	15,175,902	18,369,477	<b>\$ 18,432,378</b>	<b>\$ 62,901</b>
Fund balance at October 1, 2013	5,705,488	5,705,488		
Total budget	<b>\$ 20,881,390</b>	<b>\$ 24,074,965</b>		

Muskegon County Road Commission  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
**SCHEDULE OF EXPENDITURES**  
 General Operations Fund  
 For the year ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Current				
Public works				
Primary road				
Preservation/Structural Improvements	\$ 3,023,177	\$ 3,695,000	\$ 3,329,990	\$ 365,010
Routine and Preventive Maintenance	3,878,100	4,550,000	4,599,404	(49,404)
Local road				
Construction	-	140,000	133,184	6,816
Preservation/Structural Improvements	1,898,942	1,750,000	1,699,085	50,915
Routine and Preventive Maintenance	4,174,950	4,223,100	4,218,492	4,608
State trunkline				
Maintenance	1,900,000	2,710,000	2,715,085	(5,085)
Equipment expenditures (net)				
Direct	1,830,000	2,055,000	2,041,446	13,554
Indirect	1,150,000	1,110,000	1,106,505	3,495
Operating	650,000	900,000	866,642	33,358
Less: Equipment rentals	(3,000,000)	(3,735,000)	(3,866,092)	131,092
Total equipment expenditures (net)	630,000	330,000	148,501	181,499
Administrative expenditures (net)				
Administrative expenditures	706,150	644,000	638,156	5,844
Less: Handling charges	(8,000)	(8,000)	(8,135)	135
Overhead - state	(210,000)	(210,000)	(212,770)	2,770
Other	(1,000)	(1,000)	(1,100)	100
Total administrative expenditures (net)	487,150	425,000	416,151	8,849
Capital outlay (net)				
Capital outlay	796,000	545,000	534,909	10,091
Less: Depreciation	(1,050,000)	(1,065,000)	(1,064,446)	(554)
Total capital outlay (net)	(254,000)	(520,000)	(529,537)	9,537
Debt service				
Principal	200,000	200,000	200,000	-
Interest and fees	8,000	8,000	8,000	-
Total expenditures	15,946,319	17,511,100	<b>\$ 16,938,355</b>	<b>\$ 572,745</b>
Fund balance at September 30, 2014	7,199,511	7,199,511		
Total budget	<b>\$ 23,145,830</b>	<b>\$ 24,710,611</b>		

Muskegon County Road Commission  
 Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS**  
 For the year ended September 30, 2014

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) PENSION PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

*(Dollar amounts in thousands)*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/11	\$ 16,091	\$ 21,161	\$ 5,070	76 %	\$ 3,239	157 %
12/31/12	15,750	21,293	5,543	74	3,353	165
12/31/13	15,961	21,612	5,651	74	3,385	167

**OTHER POSTEMPLOYMENT BENEFITS PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

*(Dollar amounts in thousands)*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
9/30/07	\$ -	\$ 2,267	\$ 2,267	- %	\$ 3,372	67 %
9/30/10	253	2,208	1,955	11	not available	not available
9/30/13	1,046	2,037	991	51	not available	not available

**OTHER SUPPLEMENTAL INFORMATION**

Muskegon County Road Commission  
**ANALYSIS OF CHANGES IN FUND BALANCE**  
 General Operations Fund  
 For the year ended September 30, 2014

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 18,432,378	\$ 10,838,839	\$ 4,289,506	\$ 3,304,033
Total expenditures	16,938,355	8,089,683	5,862,780	2,985,892
Excess of revenues over (under) expenditures	1,494,023	2,749,156	(1,573,274)	318,141
Other financing sources (uses)				
Optional transfers in (out)	-	(1,573,274)	1,573,274	-
Net change in fund balance	1,494,023	1,175,882	-	318,141
Fund balance at October 1, 2013	5,705,488	3,138,572	-	2,566,916
Fund balance at September 30, 2014	<b>\$ 7,199,511</b>	<b>\$ 4,314,454</b>	<b>\$ -</b>	<b>\$ 2,885,057</b>

Muskegon County Road Commission  
**ANALYSIS OF REVENUES**  
 General Operations Fund  
 For the year ended September 30, 2014

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits	\$ 36,837	\$ -	\$ -	\$ 36,837
Federal aid				
Surface Transportation Program	1,190,376	1,190,376	-	-
Economic development funds	2,735	2,735	-	-
Federal Emergency Management Agency	128,913	-	128,913	-
Other	37,142	8,900	-	28,242
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,356	2,644	-
Urban road	1,357,786	1,009,165	348,621	-
Allocation	7,963,774	5,858,255	2,105,519	-
Snow removal	81,913	60,255	21,658	-
Local Bridge	497,129	497,129	-	-
Other	2,133,744	1,535,684	598,060	-
Economic development				
Target industries	482,376	482,376	-	-
Rural primary	128,558	128,558	-	-
Contributions from local units				
Townships	1,129,169	46,679	1,082,490	-
Charges for services				
State trunkline				
Maintenance	2,715,085	-	-	2,715,085
Salvage sales	24,108	-	-	24,108
Other	394,297	7,082	1,601	385,614
Investment earnings	7,797	4,289	-	3,508
Other revenue				
Other	110,639	-	-	110,639
Total operating revenues	<b>\$ 18,432,378</b>	<b>\$ 10,838,839</b>	<b>\$ 4,289,506</b>	<b>\$ 3,304,033</b>

Muskegon County Road Commission  
**ANALYSIS OF EXPENDITURES**  
 General Operations Fund  
 For the year ended September 30, 2014

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Current				
Public works				
Primary road				
Preservation/Structural Improvements	\$ 3,329,990	\$ 3,329,990	\$ -	\$ -
Routine and Preventive Maintenance	4,599,404	4,599,404	-	-
Local road				
Construction	133,184	-	133,184	-
Preservation/Structural Improvements	1,699,085	-	1,699,085	-
Routine and Preventive Maintenance	4,218,492	2,499	3,798,625	417,368
State trunkline				
Maintenance	2,715,085	-	-	2,715,085
Equipment expenditures (net)	148,501	47,879	59,080	41,542
Administrative expenditures (net)	416,151	243,345	172,806	-
Capital outlay (net)	(529,537)	(341,434)	-	(188,103)
Debt service				
Principal	200,000	200,000	-	-
Interest and fees	8,000	8,000	-	-
Total expenditures	<b><u>\$ 16,938,355</u></b>	<b><u>\$ 8,089,683</u></b>	<b><u>\$ 5,862,780</u></b>	<b><u>\$ 2,985,892</u></b>