

Muskegon County Road Commission

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

September 30, 2016



Muskegon County Road Commission

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

December 15, 2016

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, 2016, 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.

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, 2016, 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.

Board of County Road Commissioners
Muskegon County Road Commission
December 15, 2016
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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, schedule of changes in net pension liability and related ratios, pension system schedule of contributions, and schedule of funding progress – retiree healthcare plan on pages 3 through 8 and 32 through 36 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, 2016. 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 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 \$72,638,407 to \$74,240,898 for the year ended September 30, 2016. 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 \$1,602,491 in 2016. The net investment in capital assets category of net position increased by \$180,338 as current year capital additions exceeded depreciation. Restricted net position, which is restricted for County roads, increased by \$1,422,153.

Net position is as follows:

	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 11,382,385	\$ 10,997,347
Capital assets	<u>69,862,970</u>	<u>69,682,632</u>
Total assets	81,245,355	80,679,979
Deferred outflows of resources	<u>3,625,611</u>	<u>1,011,514</u>
Total assets and deferred outflows of resources	84,870,966	81,691,493
Liabilities		
Current liabilities	738,686	1,377,332
Noncurrent liabilities	<u>9,891,382</u>	<u>7,675,754</u>
Total liabilities	<u>10,630,068</u>	<u>9,053,086</u>
Net position		
Net investment in capital assets	69,862,970	69,682,632
Restricted	<u>4,377,928</u>	<u>2,955,775</u>
Total net position	<u>\$ 74,240,898</u>	<u>\$ 72,638,407</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 \$1,025,437 from the STP or Surface Transportation Program, a Federal Funding source, in 2016. This represents a decrease of \$567,127 from the funds received in 2015. This reduction is not the result of fewer funding sources being available but rather the carryover of several projects from the 2016 fiscal year into 2017. The two projects, Traffic Signal Upgrades and Construction of Phase 2 of the Berry Junction Trail which were carried over to 2017 totaled approximately \$1.7 million.
- **State Aid** – The main source of state aid for routine maintenance operations that the Road Commission receives comes from the Michigan Transportation Fund (MTF). The Road Commission's allotment from MTF of \$10,166,351 was an increase of 3.47% over the previous year. This revenue source has been stagnant for many years but new legislation recently passed to increase MTF funding over the coming years.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

In addition, there are a variety of other State funding opportunities but as mentioned above in Federal Aid the availability of these funding sources fluctuate depending on the State's budget and project eligibility. One component of this line item is the State funding totaling \$821,059 for the reconstruction of the River Road Bridge over Cedar Creek.

The State also implemented a Local Agency allocation from the General Fund in 2015 which continued into 2016. The allocation was prorated to state agencies based on MTF proceeds but unlike MTF the allocation was not restricted or designated to either the Primary or Local road systems but was left to the discretion of the agency to use where needed. The Road Commission received \$1,561,654 in 2016 from this program.

- **Charges for Services** – The components of this category are the State Trunkline and Accounts Receivables (work done for other entities). This category will fluctuate based on the State's budget to perform additional work on the trunkline system over and above routine maintenance that the Road Commission is contracted to so.

A summary of changes in net position is as follows:

	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues		
Licenses and permits	\$ 47,032	\$ 36,890
Federal aid	1,025,437	1,592,564
State aid	12,586,186	13,197,712
Contributions from local units and private sources	1,018,991	1,150,712
Charges for services	2,580,059	2,801,711
Investment earnings	13,046	12,955
General revenues		
Gain on disposal of capital assets	-	21,817
Other	-	600
Total revenues	<u>17,270,751</u>	<u>18,814,961</u>
Expenses		
Primary road routine and preventative maintenance	7,087,086	6,704,877
Local road routine and preventative maintenance	5,421,317	4,739,786
State trunkline	2,148,819	2,350,038
Net administrative	597,669	469,054
Reimbursable services	413,369	756,239
Total expenses	<u>15,668,260</u>	<u>15,019,994</u>
Change in net position	1,602,491	3,794,967
Net position at beginning of year	<u>72,638,407</u>	<u>68,843,440</u>
Net position at end of year	<u><u>\$ 74,240,898</u></u>	<u><u>\$ 72,638,407</u></u>

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

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, 2016, the fund balance of the General Operations Fund increased by \$1,050,566, as compared to an increase of \$1,648,871 in the prior year.

Total revenues were \$17,270,751, a decrease of \$1,542,058 as compared to last year. The net decrease in operating revenues is primarily due to fluctuations in special funding opportunities as noted above.

Total expenditures for fiscal 2016 were \$16,220,185, as compared to \$17,163,938 in 2015 resulting in a net decrease of \$943,753. Expenditures in Public Works decreased by \$894,421 in 2016. Expenses like revenues will fluctuate from year to year depending on the number of special funding projects that we add to the mix along with the core routine maintenance operations we perform.

In 2016, Capital purchases were less than Equipment Retirements and Depreciation combined by \$352,922.

Total revenues were more than expenditures for 2016 resulting in an increase to the Road Commission's fund balance of \$1,050,566.

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

	<u>2016</u>	<u>2015</u>
Revenues		
Licenses and permits	\$ 47,032	\$ 36,890
Federal aid	1,025,437	1,592,564
State aid	12,586,186	13,197,712
Contributions from local units	903,614	1,053,695
Charges for services	2,580,059	2,801,711
Investment earnings	13,046	12,955
Other revenue	<u>115,377</u>	<u>117,282</u>
Total revenues	17,270,751	18,812,809
Expenditures		
Public works	16,573,107	17,467,528
Capital outlay (net)	<u>(352,922)</u>	<u>(303,590)</u>
Total expenditures	<u>16,220,185</u>	<u>17,163,938</u>
Net change in fund balance	1,050,566	1,648,871
Fund balance at beginning of year	<u>8,848,382</u>	<u>7,199,511</u>
Fund balance at end of year	<u><u>\$ 9,898,948</u></u>	<u><u>\$ 8,848,382</u></u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any fiscal 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.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

The 2015/2016 budget was amended to decrease revenues by \$1,578,966 and expenditures by \$1,735,607. The net effect of the changes in budgeted revenues and expenditures of \$156,641 increased the budgeted increase of our fund balance from the original budgeted amount of \$116,040 to \$272,681.

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 \$413,347.

The Federal and State Aid category was decreased by \$2,537,302. The Traffic Signal Upgrade project and Phase 2 of the Berry Junction Trail totaling \$2,405,000 in the original budget were carried over to the 2016/2017 fiscal year. The delays were attributed to design changes resulting in late lettings and contractor availability. There were also costs on the River Road Bridge carried forward.

On the expenditure side routine maintenance and preservation project costs combined were increased by \$1,141,484. On the Local system an additional \$250,000 of chip sealing was accomplished. The actual cost of other functions completed on the Local system such as wedging, berm removal and durapatching were also higher than budgeted. Traditionally this line item is based on a general expectation of projects that the Road Commission will partner with townships to accomplish. In order to assist townships with their local road improvement projects the Road Commission maintains flexibility in its schedule to accommodate their requests as they are presented to us.

The Service for Other Entities line item represents pass through projects that the Road Commission facilities for various townships. As noted in the revenue section Phase 2 of the Berry Junction Trail was carried forward to the 2016/2017 fiscal year and accounts for the entire adjustment of \$2,155,741.

Historically, the price of fuel has been very volatile therefore we error on the high side until we have a better grasp on the actual cost in the current year. In addition to cost the severity and length of winter operations will impact fuel consumption.

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

	2016	2015
Capital assets, not being depreciated		
Land and improvements	\$ 26,997,575	\$ 25,783,998
Capital assets being depreciated		
Land improvements	122,457	92,617
Buildings and improvements	4,806,842	4,806,842
Road equipment	13,390,502	12,735,928
Other equipment	3,009,644	3,009,010
Infrastructure and improvements	70,791,198	70,683,001
Total capital assets being depreciated	92,120,643	91,327,398
Less accumulated depreciation	(49,255,248)	(47,428,764)
Total capital assets, being depreciated, net	42,865,395	43,898,634
Total capital assets, net	<u>\$ 69,862,970</u>	<u>\$ 69,682,632</u>

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Current year's major additions included the following:

Preservation and Bridge projects	\$ 3,816,942
Trucks and Equipment Purchases	685,048

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

Debt

As of September 30, 2016, the Road Commission had \$371,037 in long-term debt outstanding. This is an increase of \$21,231. The long-term debt outstanding is comprised entirely of compensated absences.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2016/2017 budget is much different than previous budgets in that there are substantial revenue increases in projected ACT 51 funds. The additional revenue will continue to be primarily budgeted for preservation of pavements and to match township funds on selected local road projects. With the prospect of an infusion of new revenue the Road Commission anticipates increasing its participation percentage in local projects to further assist townships in their endeavors to turn around the conditions of their roads.

There is no increase anticipated in the state maintenance contract. We have budgeted approximately \$3.2 million for chip seal on primary and local roads and have budgeted winter snow and ice control at more historical levels.

Chip sealing has become an integral part of the Road Commission's maintenance/preservation program and the increased volume of work has taken its toll on the equipment central to that operation. Consequently, in addition to the 3 trucks that we routinely purchase to maintain the proper equipment rotation, we have added a tri-axle truck and a stone spreader. Tri-axle trucks are capable of carrying 80% more materials than our current tandem trucks which not only will benefit the chip sealing operation but winter operations. The Road Commission staff has become very proficient in the chip sealing operation and has not only risen to meet the increased demand for this operation on our own road system but is in great demand from adjacent counties to perform this operation on their road systems. The Road Commission's commitment to maintaining the quality of our equipment inventory, even during lean times has held us in good stead to meet these challenges.

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, 2016

ASSETS

Current assets	
Cash and investments	\$ 6,014,512
Accounts receivable	
State trunkline maintenance	224,456
State Department of Transportation	
Michigan Transportation Fund	1,724,045
State Department of Natural Resources	95,755
Due on county road agreements	847,820
Site remediation	116,260
Other	179,402
Inventories	
Road materials	1,434,248
Equipment materials and parts	613,114
Prepaid items	132,773
Total current assets	11,382,385
Noncurrent assets	
Capital assets, net	
Nondepreciable	26,997,575
Depreciable	42,865,395
Total noncurrent assets	69,862,970
Total assets	81,245,355

DEFERRED OUTFLOWS OF RESOURCES

Related to pension	3,625,611
Total assets and deferred outflows of resources	84,870,966

LIABILITIES

Current liabilities	
Accounts payable	441,289
Accrued liabilities	60,397
Compensated absences - due within one year	237,000
Total current liabilities	738,686
Noncurrent liabilities	
Advances	
State trunkline	
Equipment purchase	352,711
Maintenance	199,251
Unearned revenues	
Forest roads	429,789
Compensated absences - less amounts due within one year	134,037
Net pension liability	8,775,594
Total noncurrent liabilities	9,891,382
Total liabilities	10,630,068

NET POSITION

Net investment in capital assets	69,862,970
Restricted for county roads	4,377,928
Total net position	\$ 74,240,898

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
STATEMENT OF ACTIVITIES
For the year ended September 30, 2016

Program expenses	
Primary road routine and preventative maintenance	\$ 7,087,086
Local road routine and preventative maintenance	5,421,317
State trunkline	2,148,819
Net administrative	597,669
Reimbursable services	413,369
	15,668,260
Program revenues	
Charges for services	
Licenses and permits	47,032
Charges for services	2,580,059
Operating grants and contributions	
Michigan Transportation Funds	10,166,351
Investment earnings	13,046
Capital grants and contributions	
Federal grants	1,025,437
State grants	2,419,835
Contributions from local units	903,614
Contributions from private sources	115,377
	17,270,751
Change in net position	1,602,491
Net position at October 1, 2015	72,638,407
Net position at September 30, 2016	\$ 74,240,898

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
BALANCE SHEET
September 30, 2016

	General Operations Fund
ASSETS	
Cash and investments	\$ 6,014,512
Receivables	
State trunkline maintenance	224,456
State Department of Transportation	
Michigan Transportation Fund	1,724,045
State Department of Natural Resources	95,755
Due on county road agreements	847,820
Site remediation	116,260
Other	179,402
Inventories	
Road materials	1,434,248
Equipment materials and parts	613,114
Prepaid items	132,773
Total assets	\$ 11,382,385
 LIABILITIES	
Accounts payable	\$ 441,289
Accrued liabilities	60,397
Advances	
State trunkline	
Equipment purchase	352,711
Maintenance	199,251
Unearned revenues	
Forest roads	429,789
Total liabilities	1,483,437
 FUND BALANCE	
Nonspendable	
Inventories	2,047,362
Prepaid items	132,773
Restricted for county roads	7,718,813
Total fund balance	9,898,948
Total liabilities and fund balance	\$ 11,382,385

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, 2016

Total fund balance—governmental funds \$ 9,898,948

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

Capital assets used in governmental activities are not current financial
 resources and, therefore, are not reported in the governmental funds.

Cost of capital assets	\$ 119,118,218	
Accumulated depreciation	<u>(49,255,248)</u>	69,862,970

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	(371,037)	
Net pension liability and related deferred outflows of resources	<u>(5,149,983)</u>	<u>(5,521,020)</u>

Net position of governmental activities		<u><u>\$ 74,240,898</u></u>
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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, 2016

	<u>General Operations Fund</u>
REVENUES	
Licenses and permits	\$ 47,032
Federal aid	1,025,437
State aid	12,586,186
Contributions from local units	903,614
Charges for services	2,580,059
Investment earnings	13,046
Other revenue	<u>115,377</u>
Total revenues	17,270,751
EXPENDITURES	
Current	
Public works	16,573,107
Capital outlay (net)	<u>(352,922)</u>
Total expenditures	<u>16,220,185</u>
Net change in fund balance	1,050,566
Fund balance at October 1, 2015	<u>8,848,382</u>
Fund balance at September 30, 2016	<u>\$ 9,898,948</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, 2016

Net change in fund balance—total governmental funds \$ 1,050,566

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	\$ (4,321,652)	
Capital outlay	<u>4,501,990</u>	180,338

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 compensated absences	(21,231)	
Change in other postemployment benefits	11,630	
Change in net pension liability and related deferred outflows of resources	<u>381,188</u>	<u>371,587</u>

Change in net position of governmental activities	<u><u>\$ 1,602,491</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, 2016

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, 2016

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, 2016

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

Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Municipal Employees Retirement System (MERS). 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.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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, 2016

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.
- 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.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- 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, 2016, actual expenditures exceeded appropriations for equipment and administrative expenditures by \$54,247 and \$104,892, respectively. 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, 2016, \$5,998,819 of the Road Commission's bank balance of \$6,248,819 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance October 1, 2015	Additions	Deductions	Balance September 30, 2016
Capital assets, not being depreciated:				
Land and improvements	\$ 25,783,998	\$ 1,213,577	\$ -	\$ 26,997,575
Capital assets, being depreciated:				
Land improvements	92,617	29,840	-	122,457
Buildings and improvements	4,806,842	-	-	4,806,842
Road equipment	12,735,928	654,574	-	13,390,502
Other equipment	3,009,010	634	-	3,009,644
Infrastructure and improvements	70,683,001	2,603,365	2,495,168	70,791,198
Total capital assets, being depreciated	91,327,398	3,288,413	2,495,168	92,120,643
Less accumulated depreciation:				
Land improvements	46,688	5,053	-	51,741
Buildings and improvements	3,401,047	124,658	-	3,525,705
Road equipment	10,999,717	795,009	-	11,794,726
Other equipment	1,674,491	151,074	-	1,825,565
Infrastructure and improvements	31,306,821	3,245,858	2,495,168	32,057,511
Total accumulated depreciation	47,428,764	4,321,652	2,495,168	49,255,248
Total capital assets, being depreciated, net	43,898,634	(1,033,239)	-	42,865,395
Capital assets, net	\$ 69,682,632	\$ 180,338	\$ -	\$ 69,862,970

Depreciation

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

Governmental activities:

Primary road	\$ 2,877,641
Local road	1,198,577
State trunkline	181,093
Administrative	64,341
	\$ 4,321,652

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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, 2016:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Compensated absences	\$ 349,806	\$ 435,865	\$ 414,634	\$ 371,037	\$ 237,000

NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Defined Benefit Pension Plan

Plan Description

The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

The Road Commission’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. Public Act 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Plan covers all full-time employees.

Benefits provided are based on the following by employee division:

	Multplier	Vesting Period	Normal Retirement Age	Early Retirement	Reduced Early Retirement	Final Average Compensation
General SEIU	2.00%	10 years	60	55/25	50/25 or 55/15	5 years
Teamsters 214	2.00%	10 years	60	55/25	50/25 or 55/15	5 years
Supervisors	2.00%	10 years	60	55/25	50/25 or 55/15	3 years
Department Heads	2.25%	10 years	60	55/25	50/25 or 55/15	3 years
Managers, Directors	2.50%	6 years	60	55/15	50/25	3 years

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
 September 30, 2016

NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Employees Covered by Benefit Terms

At December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	92
Inactive employees entitled to but not yet receiving benefits	16
Active employees	68
Total employees covered by MERS	176

Contributions

The Road Commission is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Road Commission may establish contribution rates to be paid by its covered employees.

For the year ended September 30, 2016, the Road Commission contributions ranged from 14.55 to 39.73 percent of annual covered payroll for open divisions. No contribution is required from employees.

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent	
Salary increases	3.75 percent in the long-term	
Investment rate of return	7.75 percent, net of administrative and investment expenses	

Although no specific price inflation assumptions are needed for the valuation, the 2.5 percent long-term wage inflation assumption would be consistent with a price inflation of 3-4 percent. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50 percent Male and 50 percent Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009 through 2013.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
 September 30, 2016

NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Actuarial Assumptions—Continued

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent for 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2014	\$ 21,886,760	\$ 15,344,075	\$ 6,542,685
Changes for the year			
Service cost	282,511	-	282,511
Interest	1,747,413	-	1,747,413
Difference between expected and actual experience	41,865	-	41,865
Changes in assumptions	1,086,407		1,086,407
Contributions - employer	-	1,146,432	(1,146,432)
Contributions - employee	-	38,217	(38,217)
Net investment income	-	(226,152)	226,152
Administrative expenses	-	(33,210)	33,210
Benefit payments including refund of employee contributions	(1,694,493)	(1,694,493)	-
Net changes	1,463,703	(769,206)	2,232,909
Balance at December 31, 2015	\$ 23,350,463	\$ 14,574,869	\$ 8,775,594

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

The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.25 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25 percent) or 1-percentage-point higher (9.25 percent) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Road Commission's net pension liability	\$11,076,443	\$ 8,775,594	\$ 6,801,476

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE F—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the Road Commission recognized pension expense of \$1,436,514. At September 30, 2016, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 31,399	\$ -
Differences in assumptions	814,805	-
Net difference between projected and actual net investment income	1,287,498	-
Contributions subsequent to the measurement date*	1,491,909	-
Total	\$ 3,625,611	\$ -

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending September 30, 2017.

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

Year Ending September 30,	Amount
2017	\$ 615,872
2018	615,872
2019	615,871
2020	286,087

Payables to the Pension Plan

At September 30, 2016, the Road Commission did not have a payable to the Plan.

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).

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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

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, 2016, the Road Commission contributed \$166,277 to the OPEB Plan, of which \$91,082 were for direct payments for retiree insurance and \$75,195 were contributed to the trust, which is 108 percent 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	\$ 155,574
Interest on net OPEB (asset) obligation	756
Adjustment to annual required contribution	(1,683)
Net OPEB cost	<u>154,647</u>
Payments made to or on behalf of retirees	(91,082)
Contributions made to OPEB trust	<u>(75,195)</u>
Decrease in net OPEB obligation	(11,630)
Net OPEB obligation at beginning of year	<u>11,630</u>
Net OPEB obligation at end of year	<u><u>\$ -</u></u>

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE G—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB (Asset) Obligation</u>
09/30/14	\$ 214,889	97 %	\$ (105,875)
09/30/15	215,665	46	11,630
09/30/16	154,647	108	-

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, 2016 actuarial valuation using the entry age normal (level percent) actuarial cost method. The actuarial assumptions included (a) 6.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate for pre-65 of 8 percent initially, reduced by decrements .5 percent per year to an ultimate rate of 5 percent and for post-65 of 5 percent for all years. 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, 2016 is 8 years.

Prior to the September 2016 valuation, the Road Commission had been using the projected unit credit actuarial cost method. Assumptions under that method were a (a) 7.5 percent discount rate and (b) annual inflation rates ranging from 5 to 9 percent for healthcare. Additionally, the unfunded actuarial accrued liability was amortized as a level dollar of projected payroll.

Funded Status and Progress

As of September 30, 2016, the most recent actuarial valuation date, the OPEB Plan was 64 percent funded. The actuarial accrued liability for benefits was approximately \$2,055,000, and the actuarial value of assets was approximately \$1,316,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$739,000. 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.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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.

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, 2016, the federal aid received and expended by the Road Commission was \$1,025,437 for contracted projects. No funding was received for negotiated projects during the year. 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 \$750,000 or more for negotiated projects.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the Road Commission’s 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB 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. The net OPEB liability recorded in the Statement of Net Position on October 1, 2017 will be significant.

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Licenses and permits	\$ 40,000	\$ 50,100	\$ 47,032	\$ (3,068)
Federal aid				
Surface Transportation Program	3,604,302	1,030,000	1,025,437	(4,563)
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Urban road	1,350,000	1,570,000	1,580,989	10,989
Allocation	8,249,984	8,441,636	8,489,667	48,031
Snow removal	84,000	85,695	85,695	-
Critical Bridge	800,000	825,000	821,059	(3,941)
Other	1,600,000	1,612,000	1,598,762	(13,238)
Economic development				
Rural primary	-	-	14	14
Contributions from local units				
Townships	636,361	655,000	847,820	192,820
Other private sources	-	50,000	55,794	5,794
Charges for services				
State trunkline				
Maintenance	1,900,000	2,232,000	2,147,672	(84,328)
Nonmaintenance	-	-	1,682	1,682
Salvage sales	10,000	10,000	9,910	(90)
Other	385,000	515,200	420,795	(94,405)
Investment earnings	9,000	13,050	13,046	(4)
Other revenue				
Contributions from private sources	100,000	100,000	115,377	15,377
Total operating revenues	<u>18,778,647</u>	<u>17,199,681</u>	<u>\$ 17,270,751</u>	<u>\$ 71,070</u>
Fund balance at October 1, 2015	<u>8,848,382</u>	<u>8,848,382</u>		
Total budget	<u>\$ 27,627,029</u>	<u>\$ 26,048,063</u>		

Muskegon County Road Commission
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
SCHEDULE OF EXPENDITURES
 General Operations Fund
 For the year ended September 30, 2016

	<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	\$ 3,358,896	\$ 3,154,350	\$ 2,990,213	\$ 164,137
Routine and Preventive Maintenance	4,850,100	5,115,750	4,928,815	186,935
Local road				
Preservation/Structural Improvements	657,470	1,051,700	826,730	224,970
Routine and Preventive Maintenance	6,819,791	5,425,200	5,236,391	188,809
State trunkline				
Maintenance	1,900,000	2,233,000	2,147,137	85,863
Nonmaintenance	-	2,000	1,682	318
Equipment expenditures (net)				
Direct	2,030,000	1,930,000	1,982,012	(52,012)
Indirect	1,150,000	1,110,000	1,161,478	(51,478)
Operating	850,000	375,000	347,525	27,475
Less: Equipment rentals	(3,300,000)	(3,607,000)	(3,628,768)	21,768
Total equipment expenditures (net)	730,000	(192,000)	(137,753)	(54,247)
Administrative expenditures (net)				
Administrative expenditures	676,350	667,000	763,565	(96,565)
Less: Handling charges	(8,000)	(8,000)	(5,446)	(2,554)
Overhead - state	(175,000)	(175,000)	(168,381)	(6,619)
Other	(9,000)	(9,000)	(9,846)	846
Total administrative expenditures (net)	484,350	475,000	579,892	(104,892)
Capital outlay (net)				
Capital outlay	937,000	700,000	685,048	14,952
Less: Depreciation	(1,075,000)	(1,038,000)	(1,037,970)	(30)
Total capital outlay (net)	(138,000)	(338,000)	(352,922)	14,922
Total expenditures	18,662,607	16,927,000	\$ 16,220,185	\$ 706,815
Fund balance at September 30, 2016	9,898,948	9,898,948		
Total budget	\$ 28,561,555	\$ 26,825,948		

Muskegon County Road Commission
Required Supplementary Information
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	2015	2014
TOTAL PENSION LIABILITY		
Service cost	\$ 282,511	\$ 285,875
Interest	1,747,413	1,717,288
Differences between expected and actual experience	41,865	-
Changes of assumptions	1,086,407	-
Benefit payments, including refunds of employee contributions	(1,694,493)	(1,578,166)
Net change in total pension liability	1,463,703	424,997
Total pension liability at beginning of year	21,886,760	21,461,763
Total pension liability at end of year (a)	<u>\$ 23,350,463</u>	<u>\$ 21,886,760</u>
 PLAN FIDUCIARY NET POSITION		
Contributions-employer	\$ 1,146,432	\$ 949,108
Contributions-employee	38,217	38,241
Net investment income	(226,152)	937,415
Benefit payments, including refunds or employee contributions	(1,694,493)	(1,578,166)
Administrative expense	(33,210)	(34,335)
Net change in plan fiduciary net position	(769,206)	312,263
Plan fiduciary net position at beginning of year	15,344,075	15,031,812
Plan fiduciary net position at end of year (b)	<u>\$ 14,574,869</u>	<u>\$ 15,344,075</u>
 Road Commission's net pension liability at end of year (a)-(b)	<u>\$ 8,775,594</u>	<u>\$ 6,542,685</u>
 Plan fiduciary net position as a percentage of the total pension liability	62.42%	70.11%
 Covered employee payroll	\$ 3,194,684	\$ 3,218,250
 Road Commission's net pension liability as a percentage of covered employee payroll	274.69%	203.30%

Notes to Schedule

Additional actuarial data is not available and will be provided in subsequent years.

Muskegon County Road Commission
Required Supplementary Information
PENSION SYSTEM SCHEDULE OF CONTRIBUTIONS
Last Ten Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 717,702	\$ 655,907	\$ 644,639	\$ 596,226	\$ 561,530	\$ 548,707	\$ 525,721	\$ 499,259	\$ 490,690	\$ 448,000
Contributions in relation to the actuarially determined contribution	1,817,702	1,005,907	944,639	796,226	561,530	698,707	675,721	499,259	490,690	448,000
Contribution deficiency (excess)	\$ (1,100,000)	\$ (350,000)	\$ (300,000)	\$ (200,000)	\$ -	\$ (150,000)	\$ (150,000)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 3,194,684	\$3,218,250	\$3,384,949	\$3,352,658	\$3,239,362	\$3,442,664	\$3,613,966	\$3,517,833	\$3,467,402	\$3,371,525
Contributions as percentage of covered employee payroll	56.9%	31.3%	27.9%	23.7%	17.3%	20.3%	18.7%	14.2%	14.2%	13.3%

Notes to Schedule

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent, net of investment and administrative expenses
Retirement age	Varies depending on plan adoption
Mortality	50 percent Female/50 percent Male RP-2014 Group Annuity Mortality Table

Muskegon County Road Commission
 Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS – RETIREE HEALTHCARE PLAN
 For the year ended September 30, 2016

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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
9/30/16	1,316	2,055	739	64	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, 2016

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 17,270,751	\$ 9,401,491	\$ 3,547,466	\$ 4,321,794
Total expenditures	16,220,185	8,012,885	5,827,553	2,379,747
Excess of revenues over (under) expenditures	1,050,566	1,388,606	(2,280,087)	1,942,047
Other financing sources (uses)				
Optional transfers in (out)	-	(1,388,606)	1,388,606	-
Interfund transfers in (out)	-	-	891,481	(891,481)
Total other financing sources (uses)	-	(1,388,606)	2,280,087	(891,481)
Net change in fund balance	1,050,566	-	-	1,050,566
Fund balance at October 1, 2015	8,848,382	4,676,932	-	4,171,450
Fund balance at September 30, 2016	\$ 9,898,948	\$ 4,676,932	\$ -	\$ 5,222,016

Muskegon County Road Commission
ANALYSIS OF REVENUES
 General Operations Fund
 For the year ended September 30, 2016

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits	\$ 47,032	\$ -	\$ -	\$ 47,032
Federal aid				
Surface Transportation Program	1,025,437	1,025,437	-	-
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,360	2,640	-
Urban road	1,580,989	1,156,897	424,092	-
Allocation	8,489,667	6,247,985	2,241,682	-
Snow removal	85,695	63,067	22,628	-
Local Bridge	821,059	821,059	-	-
Other	1,598,762	37,108	-	1,561,654
Economic development				
Rural primary	14	14	-	-
Contributions from local units				
Townships	847,820	-	847,820	-
Other private sources	55,794	11,000	1,148	43,646
Charges for services				
State trunkline				
Maintenance	2,147,672	-	-	2,147,672
Nonmaintenance	1,682	-	-	1,682
Salvage sales	9,910	-	-	9,910
Other	420,795	24,668	7,456	388,671
Investment earnings	13,046	6,896	-	6,150
Other revenue				
Contributions from private sources	115,377	-	-	115,377
Total operating revenues	<u>\$ 17,270,751</u>	<u>\$ 9,401,491</u>	<u>\$ 3,547,466</u>	<u>\$ 4,321,794</u>

Muskegon County Road Commission
ANALYSIS OF EXPENDITURES
 General Operations Fund
 For the year ended September 30, 2016

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Current				
Public works				
Primary road				
Preservation/Structural Improvements	\$ 2,990,213	\$ 2,990,213	\$ -	\$ -
Routine and Preventive Maintenance	4,928,815	4,928,815	-	-
Local road				
Preservation/Structural Improvements	826,730	-	826,730	-
Routine and Preventive Maintenance	5,236,391	9,568	4,825,459	401,364
State trunkline				
Maintenance	2,147,137	-	-	2,147,137
Nonmaintenance	1,682	-	-	1,682
Equipment expenditures (net)	(137,753)	(42,642)	(66,091)	(29,020)
Administrative expenditures (net)	579,892	338,437	241,455	-
Capital outlay (net)	(352,922)	(211,506)	-	(141,416)
Total expenditures	<u>\$ 16,220,185</u>	<u>\$ 8,012,885</u>	<u>\$ 5,827,553</u>	<u>\$ 2,379,747</u>