



IONIA COUNTY ROAD COMMISSION

(A Component Unit of Ionia County, Michigan)

Financial Statements

For the Year Ended December 31, 2016



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Ionia County Road Commission
(A Component Unit of Ionia County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

Independent Auditor's Report

To the Board of County Road Commissioners
County of Ionia, Michigan
Ionia, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Ionia County Road Commission*, a component unit of Ionia County, Michigan, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the *Ionia County Road Commission*, as of December 31, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7), budgetary comparison information (page 33), schedule of funding progress (page 34), schedule of changes in net pension liability and related ratios (page 35) and the schedule of employer contributions (page 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Ionia County Road Commission's*** basic financial statements. The other supplementary information schedules are the responsibility of management and were 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 supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017, on our consideration of the ***Ionia County Road Commission's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***Ionia County Road Commission's*** internal control over financial reporting and compliance.

Smith + Klayhewicz PC

Saginaw, Michigan

May 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ionia County Road Commission

Management's Discussion and Analysis

As management of the Ionia County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Ionia County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Ionia County Road Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Ionia County Road Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., vested sick and vacation).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Road Commission's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Ionia County Road Commission

Management's Discussion and Analysis

The Ionia County Road Commission adopts an annual appropriated budget for the General Operating / Road Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 12-32 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$41,919,032 at the end of the year.

Net position is separated into two major components, net investment in capital assets of \$49,887,944 and unrestricted net position / (deficit) of \$(7,968,912). The investment in capital assets reflects the Road Commission's investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less any related debt issued to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position / (deficit) represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the year, the Road Commission reported a positive balance in net position invested in capital assets and a negative balance in unrestricted net position. The deficit situation mainly results from implementing GASB statement number 68 in the prior year, which required the recording of a net pension liability in excess of \$9.9 million on the Statement of Net Position in the current year.

The following compares the net position at December 31, 2016 and 2015 in a condensed format:

	<u>2016</u>	<u>2015</u>
Assets –		
Current and other unrestricted assets	\$ 2,730,957	\$ 3,552,841
Capital and other long-term assets	<u>50,355,556</u>	<u>48,325,057</u>
Total assets	<u>53,086,513</u>	<u>51,877,898</u>
Deferred outflows of resources	<u>2,046,636</u>	<u>826,958</u>
Liabilities –		
Current liabilities	460,704	397,115
Long-term liabilities	<u>12,070,233</u>	<u>10,969,078</u>
Total liabilities	<u>12,530,937</u>	<u>11,366,193</u>

Ionia County Road Commission

Management's Discussion and Analysis

	<u>2016</u>	<u>2015</u>
Deferred inflows of resources	200,642	-
Net position –		
Net investment in capital assets	49,887,944	47,943,923
Unrestricted (deficit)	<u>(8,107,397)</u>	<u>(6,605,260)</u>
Total net position	<u>\$ 41,780,547</u>	<u>\$ 41,338,663</u>

The following presents a comparison of revenues, expenses and changes in net position for the year ended December 31, 2016 and 2015 in a condensed format:

	<u>2016</u>	<u>2015</u>
Revenues –		
Charges for services	\$ 5,324,639	\$ 3,374,162
Operating grants and contributions	5,208,576	5,893,324
Capital grants and contributions	2,149,523	2,498,769
General revenue	<u>74,522</u>	<u>149,589</u>
Total	<u>12,757,260</u>	<u>11,915,844</u>
Expenses –		
Public works	12,306,883	9,208,028
Debt service	<u>8,493</u>	<u>6,716</u>
Total	<u>12,315,376</u>	<u>9,214,744</u>
Change in net position	<u>\$ 441,884</u>	<u>\$ 2,701,100</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available to finance routine and emergency spending in succeeding years.

For the year ended December 31, 2016, the fund balance of the Road Commission decreased by \$491,368 to \$2,270,253. Of this amount, \$742,076 is not spendable (prepaid items and inventory), \$1,393,177 is restricted because it may only be used to finance future maintenance projects on the road and bridge system and \$135,000 is assigned for capital improvements.

Total revenues were \$13,154,956, an increase of \$1,416,901, as compared to the prior year. This was primarily the result of increases in Federal contributions (including pass-through funding) for projects and charges for services for State trunkline non-maintenance projects. Total expenditures of \$13,848,804 increased \$2,673,614 over the prior year, again mainly as a result of increased activity for road and bridge projects and contracted State trunkline maintenance work.

Ionia County Road Commission

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

The Road Commission amended its annual budget several times to reflect status changes in preservation-structural improvements and State trunkline maintenance projects. The final revenue budget was \$2,030,709 more than the original budget; the final expenditure budget was \$2,864,501 more than the original budget for those same reasons. The actual revenues were \$253,653 more than the amended budget or 1.93% over budget. The actual expenditures were \$11,846 less than the amended budget, or 0.09% under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission had \$49,887,944 in net capital assets at the end of the year. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local sources. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2016</u>	<u>2015</u>
Nondepreciable capital assets	\$ 17,158,649	\$ 16,400,190
Buildings and improvements, net	1,051,365	1,092,725
Equipment, net	1,477,487	1,219,317
Infrastructure, net	<u>30,668,055</u>	<u>29,612,825</u>
Total	<u>\$ 50,355,556</u>	<u>\$ 48,325,057</u>

Additional information about the Road Commission's capital assets activity may be found in Note 4 on page 22 of the financial statements.

Long-term Liabilities – At the beginning of the year the Road Commission had two installment loans outstanding that amounted to \$381,134. The Road Commission paid the scheduled principal and interest payments on that installment debt during the year and entered into another installment loan for the purchase of a capital asset in the amount of \$202,480. This activity, along with changes in accrued compensated absences resulted in an overall increase in the outstanding balance in long-term liabilities of \$63,516.

Additional information on the Road Commission's long-term liabilities may be found in Note 4 on page 23 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Recent changes to the taxes and fees that are components of the MTF, which is our main source of operating revenue, are positive but will take some years to be realized. As the funds are received, we will continue to utilize our Asset Management plan to repair our roads and bridges.

Our 2017 budget is programmed with slightly lower revenues and expenditures, mainly due to decreased volume in Federal and State trunkline projects this year.

Ionia County Road Commission

Management's Discussion and Analysis

The Board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road and bridge in Ionia County's transportation system; therefore, the Board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Ionia County.

CONTACTING THE ROAD COMMISSION'S 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 accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Ionia County administrative office at 170 E. Riverside Drive, Ionia, MI 48846; or at info@ioniacountyroads.org.



BASIC FINANCIAL STATEMENTS

Ionia County Road Commission
Governmental Fund Balance Sheet / Statement of Net Position
December 31, 2016

	General Operating / Road Fund	Adjustments (Note 2)	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 627,636	\$ -	\$ 627,636
Due from other governmental units			
State	1,313,586	-	1,313,586
Local	43,486	-	43,486
Accounts receivable	4,173	-	4,173
Prepaid items	97,898	-	97,898
Inventory	644,178	-	644,178
Non-current assets:			
Capital assets			
Assets not being depreciated	-	17,158,649	17,158,649
Assets being depreciated, net	-	33,196,907	33,196,907
Total assets	<u>\$ 2,730,957</u>	<u>50,355,556</u>	<u>53,086,513</u>
Deferred outflows of resources	<u>-</u>	<u>2,046,636</u>	<u>2,046,636</u>
Liabilities			
Accounts payable	\$ 53,602	-	53,602
Contractors retainage payable	2,413	-	2,413
Accrued liabilities	80,660	-	80,660
Accrued interest	-	2,916	2,916
Deferred expense - federal aid projects	11,114	-	11,114
Advances and deposits	312,915	-	312,915
Non-current liabilities:			
Due within one year	-	169,925	169,925
Due in more than one year	-	465,477	465,477
Net pension liability	-	10,528,227	10,528,227
Net other postemployment obligation	-	1,524,711	1,524,711
Total liabilities	<u>460,704</u>	<u>12,691,256</u>	<u>13,151,960</u>
Deferred inflows of resources	<u>-</u>	<u>200,642</u>	<u>200,642</u>
Fund balance			
Nonspendable:			
Prepaid items	97,898	(97,898)	-
Inventory	644,178	(644,178)	-
Assigned for physical plant improvements	135,000	(135,000)	-
Restricted for roads and bridges	1,393,177	(1,393,177)	-
Total fund balance	<u>2,270,253</u>	<u>(2,270,253)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,730,957</u>		
Net position / (deficit)			
Net investment in capital assets		49,887,944	49,887,944
Unrestricted (deficit)		(8,107,397)	(8,107,397)
Total net position		<u>\$ 41,780,547</u>	<u>\$ 41,780,547</u>

The accompanying notes are an integral part of these financial statements.

Ionia County Road Commission
Statement of Governmental Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities
For the Year Ended December 31, 2016

	General Operating / Road Fund	Adjustments (Note 2)	Statement of Activities
Expenditures/expenses			
Public works	\$ 8,884,783	\$ 3,422,100	\$ 12,306,883
Debt service	125,170	(116,677)	8,493
Capital outlay	4,838,851	(4,838,851)	-
Total expenditures/expenses	<u>13,848,804</u>	<u>(1,533,428)</u>	<u>12,315,376</u>
Program revenue			
Charges for services	<u>5,324,639</u>	-	<u>5,324,639</u>
Operating grants and contributions			
State transportation and other funds	<u>5,606,272</u>	<u>(397,696)</u>	<u>5,208,576</u>
Capital grants and contributions			
Federal and State sources	<u>2,149,523</u>	-	<u>2,149,523</u>
Total program revenue	<u>13,080,434</u>	<u>(397,696)</u>	<u>12,682,738</u>
Net program revenue			<u>367,362</u>
General revenue			
Interest and rentals	1,619	-	1,619
Proceeds from sale of capital assets	<u>72,903</u>	-	<u>72,903</u>
Total general revenue	<u>74,522</u>	-	<u>74,522</u>
Total revenue	<u>13,154,956</u>		
Other financing sources			
Installment purchase proceeds	<u>202,480</u>	<u>(202,480)</u>	-
Revenue and other financing sources over (under) expenditures / expenses	(491,368)	491,368	-
Change in net position	-	441,884	441,884
Fund balance / net position			
Beginning of the year	<u>2,761,621</u>	<u>38,577,042</u>	<u>41,338,663</u>
End of the year	<u>\$ 2,270,253</u>	<u>\$ 39,510,294</u>	<u>\$ 41,780,547</u>

The accompanying notes are an integral part of these financial statements.

Ionia County Road Commission
Statement of Fiduciary Net Position
Employee Healthcare Benefit Trust Fund
December 31, 2016

Assets	
Investments	<u>\$ 151,446</u>
Net position - restricted for OPEB	<u>\$ 151,446</u>

The accompanying notes are an integral part of these financial statements.

Ionia County Road Commission

Statement of Changes in Fiduciary Net Position Employee Healthcare Benefit Trust Fund

For the Year Ended December 31, 2016

Additions

Employer contributions	\$ -
Unrealized gain (loss) on investments	14,384
	<hr/>
Total additions	14,384

Deductions

Administrative - investment advisory fees	710
Participant benefits	-
	<hr/>
Total deductions	710

Change in net position	13,674
Net position - Beginning of the year	137,772
	<hr/>
Net position - End of the year	\$ 151,446

The accompanying notes are an integral part of these financial statements.

Ionia County Road Commission

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies adopted by the *Ionia County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities. The following is a summary of the significant policies.

Reporting Entity

The *Ionia County Road Commission* is a discrete component unit of the County of Ionia, Michigan. The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable. The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Michigan Department of Transportation for work done by the County on State trunklines, Federal Transportation funds and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is established pursuant to the County Road Law (MCL224.1) and operates under a five-member Board of County Road Commissioners that is appointed by the County Board of Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. The Road Commission provides services to 16 Townships in Ionia County and maintains approximately 1,383 miles of State, local and primary roads.

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 of the activities of the Road Commission, excluding fiduciary activity (Employee Healthcare Benefit Trust Fund). *Governmental activities* are supported by charges for services and intergovernmental grants and contributions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet, Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and the Statement of Activities) and the fiduciary fund statements (Employee Healthcare Benefit Trust Fund) 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

Ionia County Road Commission

Notes to Financial Statements

cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) 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 not expected to be paid in the current year and claims and judgments are recorded only when payment is due.

State and Federal revenue, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Road Commission.

The Road Commission reports the following major *governmental* fund:

The *General Operating / Road Fund* is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, except those required to be accounted for in another fund.

In addition, the Road Commission reports the following fiduciary fund:

The *Employee Healthcare Benefit Trust Fund* accounts for the financial activity of assets held to fund postemployment health benefits.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

Investments

Investments are comprised of mutual funds and are reported at fair value.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenditures in both the government-wide and fund financial statements.

Inventory

Inventory consists of various operating parts, supplies and road material and is stated at cost, using the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

Ionia County Road Commission

Notes to Financial Statements

Capital Assets

Land, buildings, equipment and infrastructure assets (roads, bridges and other similar items) are reported as capital assets in the government-wide financial statements (Statement of Net Position). Capital assets are defined by the Road Commission as land, buildings, improvements and equipment (except road equipment), with an estimated useful life in excess of two (2) years. No minimum cost is used to record road equipment capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported prospectively from 1980, except for right-of-ways, bridges and traffic signals, which are required to be reported despite the date of purchase.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating / Road Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

Depreciation is recorded over the following estimated useful lives using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets and infrastructure:

Buildings and improvements	10 to 50 years
Road equipment	5 to 8 years
Shop equipment	5 years
Office equipment	5 to 10 years
Engineering equipment	3 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Road Commission has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings and contributions to the defined benefit pension plan subsequent to the measurement date.

Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement that it has with the Road Commission for specific maintenance performed by the Road Commission during the year and for equipment purchases. The advances are considered current liabilities because they are subject to repayment annually, based upon results of audit procedures performed by the State of Michigan.

Ionia County Road Commission

Notes to Financial Statements

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the current year ended cannot be reasonably determined.

Compensated Absences

In accordance with the union contract and policies adopted by the Board of County Road Commissioners, employees have a vested right upon termination of employment to receive compensation for accumulated unused sick leave and vacation time under formulas and conditions specified in the contract / policies.

Employees are compensated for 100% of their vested vacation upon termination for any reason. Beginning November 1, 1994, unused sick leave has no limit on accumulation and has no provision for payoff at retirement, layoff, death or termination. Accumulated sick leave earned prior to November 1, 1994 was placed into a "sick leave bank" at the hourly wage rate as of that date. Employees are compensated for 50% of their unused sick leave bank upon resignation or termination and 100% of their unused sick leave bank upon death or retirement.

Vacation and sick leave payable is reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Long-term Obligations

In the government-wide financial statements (Statement of Net Position), long-term debt and other long-term obligations are reported as liabilities.

Equipment Rental

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated (charged) to the various activities. The effect of this allocation is offset to equipment expenditures / expenses.

Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

Ionia County Road Commission

Notes to Financial Statements

Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Board of County Road Commissioners.

Assigned

Amounts that are constrained by the Road Commission's *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners has authorized the Managing Director or her designee the authority to assign fund balance on behalf of the Road Commission.

Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Road Commission incurs expenditures for purposes for which various fund balance classifications can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Ionia County Road Commission

Notes to Financial Statements

NOTE 2 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of differences between the governmental fund statements and the government-wide Statement of Net Position (page 8):

Fund balance – General Operating / Road Fund	\$	2,270,253
Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements.		
Capital assets not being depreciated		17,158,649
Capital assets being depreciated		62,730,072
Accumulated depreciation		(29,533,165)
Certain pension-related amounts such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Net pension liability		(10,528,227)
Deferred inflows related to the net pension liability		(200,642)
Deferred outflows related to the net pension liability		2,046,636
Long-term liabilities are not due and payable in the current period and are therefore not reported in the fund financial statements		(635,402)
The net OPEB obligation is a long-term liability and is therefore not reported in the fund financial statements		(1,524,711)
Accrued interest payable on long-term liabilities is not reported in the fund financial statements		<u>(2,916)</u>
Net position of governmental activities	\$	<u>41,780,547</u>

Explanation of differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities (page 9):

Change in fund balance – General Operating / Road Fund	\$	(491,368)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		862,693
Infrastructure purchases		3,976,158
Depreciation expense		(2,807,929)

Ionia County Road Commission

Notes to Financial Statements

Principal payments on long-term liabilities are reported as an expenditure in the fund statements, but not in the government-wide Statement of Activities, where the payment reduces the long-term liability	116,002
Note proceeds are reported as other financing sources in the fund statements, but increase long-term liabilities in the government-wide Statement of Activities	(202,480)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the fund statements only when the payment is due	675
The loss on disposal of capital assets is reported as an expense in the government-wide Statement of Activities but does not represent the use of a current financial resource and is therefore not reported in the fund financial statements	(422)
The net difference between the actuarially determined Annual Required Contribution to fund other postemployment benefits and actual contributions made during the year is reported as revenues and expenses in the government-wide Statement of Activities, but does not impact current financial resources and is therefore not reported in the fund financial statements	(327,981)
The change in the net pension liability and related deferred outflows does not impact current financial resources and therefore is not reported in the fund financial statements	(308,729)
Amounts reported as deferred inflows in the prior year are reported as revenue in the fund financial statements in the current year, but not in the government-wide Statement of Activities	(397,696)
The change in accrued compensated absences is reported as an expense in the Statement of Activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the fund statements	<u>22,961</u>
Change in net position of governmental activities	<u>\$ 441,884</u>

NOTE 3 – Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

Ionia County Road Commission

Notes to Financial Statements

Budgetary Data

The Road Commission’s procedures for establishing budgetary data are as follows:

The Managing Director prepares a proposed operating budget for the calendar year commencing January 1st, using data offered by the administrative staff. The proposed operating budget includes identification of expenditures and resources to finance them.

Prior to December 31st, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.

The Road Commission’s approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.

The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations resolution, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrual basis of accounting.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Budgetary Comparison Schedule.

NOTE 4 – Detailed Notes on All Funds

Deposits and Investments

At year-end, the carrying amounts of the Road Commission’s deposits and investments were as follows:

	General Operating / Road Fund	Trust Fund
Cash on hand	\$ 500	\$ -
Deposits with financial institutions		
Imprest checking	5,000	-
Checking maintained by County Treasurer	622,136	-
Investments – mutual funds	-	151,446
Total	\$ 627,636	\$ 151,446

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain cash of the Road Commission. All Road Commission receipts are deposited with the Ionia County Treasurer’s Office. To make disbursements, the Road Commission requests the County Treasurer to transfer funds to an imprest vendor or payroll checking account.

Ionia County Road Commission

Notes to Financial Statements

Deposit and Investment Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Interest Rate Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, the carrying amount of the Road Commission's deposits was \$627,136 and the bank balance was \$1,147,414. At year-end, \$647,414 of the Road Commission's bank balance was exposed to custodial credit risk because it was uninsured (FDIC) and uncollateralized.

The Road Commission has determined that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk associated with each financial institution. The County's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

Custodial Credit Risk – Investments

Custodial credit risk 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. State law does not require a policy for investment custodial credit risk. The Road

Ionia County Road Commission

Notes to Financial Statements

Commission's investment policy does not address custodial credit risk for investments. However, while uninsured and unregistered, the Road Commission's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the Road Commission's name.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year-end, the Road Commission's investments are comprised of a single investment account; the MERS Total Market Fund.

Inventory

The year-end inventory balance of \$644,178 was comprised of \$338,052 in road materials and \$306,126 in parts and material for equipment.

Ionia County Road Commission

Notes to Financial Statements

Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 79,821	\$ -	\$ -	\$ 79,821
Land improvements	16,230,133	635,283	-	16,865,416
Right of ways	80,000	-	-	80,000
Construction in progress	156	33,000	-	33,156
Depletable assets – gravel pits	10,080	90,176	-	100,256
Total capital assets not being depreciated	16,400,190	758,459	-	17,158,649
Capital assets being depreciated				
Buildings	2,341,630	20,345	-	2,361,975
Building improvements	150,369	-	-	150,369
Road equipment	7,025,310	715,546	(434,231)	7,306,625
Shop equipment	237,831	-	-	237,831
Office equipment	216,092	3,626	-	219,718
Engineer equipment	152,363	-	-	152,363
Infrastructure - roads	31,453,750	1,965,149	(1,320,200)	32,098,699
Infrastructure – bridges	18,826,766	1,375,726	-	20,202,492
Total capital assets being depreciated	60,404,111	4,080,392	(1,754,431)	62,730,072
Less accumulated depreciation				
Buildings	(1,260,979)	(59,435)	-	(1,320,414)
Building improvements	(138,295)	(2,270)	-	(140,565)
Road equipment	(5,880,482)	(436,382)	433,808	(5,883,056)
Shop equipment	(200,695)	(13,296)	-	(213,991)
Office equipment	(184,402)	(7,342)	-	(191,744)
Engineer equipment	(146,700)	(3,559)	-	(150,259)
Infrastructure – roads	(15,713,614)	(1,902,237)	1,320,200	(16,295,651)
Infrastructure – bridges	(4,954,077)	(353,756)	-	(5,337,485)
Total accumulated depreciation	(28,479,244)	(2,807,929)	1,754,008	(29,533,165)
Net capital assets being depreciated	31,924,867	1,272,463	(423)	33,196,907
Total net capital assets	\$ 48,325,057	\$ 2,030,922	\$ (423)	\$ 50,355,556

Ionia County Road Commission

Notes to Financial Statements

Long-term Debt

Long-term liability activity for the year was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending</u> <u>Balance</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
2014 Installment loan	\$ 161,134	\$ -	\$ (44,602)	\$ 116,532	\$ 45,784
2015 Installment loan	220,000	-	(71,400)	148,600	73,500
2016 Installment loan	-	202,480	-	202,480	50,641
Accrued sick and vacation	180,752	-	(22,962)	157,790	-
Retiree life insurance liability	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Total	<u>\$ 571,886</u>	<u>\$ 202,480</u>	<u>\$ (138,964)</u>	<u>\$ 635,402</u>	<u>\$ 169,925</u>

Significant details regarding the outstanding balance in long-term liabilities are presented below:

2014 Installment Loan

The Road Commission is obligated for an installment loan dated February 4, 2014, in the original amount of \$226,000. The debt is required to be paid in 10 semi-annual installments, including interest of 2.50%.

2015 Installment Loan

The Road Commission is obligated for an installment loan dated September 2, 2015, in the original amount of \$220,000. The debt is required to be paid in 6 semi-annual installments, with the first payment being due in March 2016, including interest of 2.60%.

2016 Installment Loan

The Road Commission is obligated for an installment loan dated September 23, 2016, in the original amount of \$202,480. The debt is required to be paid in 4 annual installments, with the first payment being due in March 2017, including interest of 1.50%.

The annual debt service requirements for the outstanding balance of the installment loans, including interest at year-end are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 169,925	\$ 7,522	\$ 177,447
2018	171,897	5,208	177,105
2019	74,421	1,825	76,246
2020	<u>51,369</u>	<u>770</u>	<u>52,139</u>
	<u>\$ 467,612</u>	<u>\$ 15,325</u>	<u>\$ 482,937</u>

Accrued Sick and Vacation

In accordance with Board policy and the labor agreement with the Road Commission, individual employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the contracts. The dollar amounts of these vested rights, which have been accrued on the government-wide statements amounted to approximately \$17,380 for sick leave and \$140,410 for vacation at year-end.

Ionia County Road Commission

Notes to Financial Statements

Retiree Life Insurance Liability

In 1995, the Road Commission elected to become self-insured with respect to retiree life insurance benefits for existing retirees at that time. Employees that retire from the Road Commission after 1995 are no longer granted life insurance at retirement, in accordance with labor contracts. However, employees who retired prior to the effective date of current employee contracts were granted life insurance coverage upon retirement. The Road Commission decided to discontinue paying the premiums on the existing policies and to pay the death benefits from future resources. Accordingly, a liability for retirees’ life insurance benefits was recorded in the government-wide statements in the amount of \$10,000, which represents the maximum remaining amount of death benefits to be paid to beneficiaries.

NOTE 5 – Other Information

Postemployment Benefits Other than Pensions (OPEB)

Plan Description

The Road Commission provides postemployment health care to eligible employees and / or their spouses who retire from the Road Commission on or after attaining retirement age with at least ten (10) or twenty (20) years of service, depending on position. This is a single employer defined benefit plan that is administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees.

Funding Policy

The collective bargaining agreements require the Road Commission to pay the insurance premium / claim costs of the retiree and spouse until death of the retiree. The Road Commission obtains healthcare coverage for retirees through private insurers. Upon eligibility for Medicare, the Road Commission pays for group Medicare supplemental coverage. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

Annual OPEB Cost and Net OPEB Obligation

The Road Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 (one hundred) total plan members. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

For the current year, the Road Commission estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation’s computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$	555,837
Interest on the prior year’s net OPEB obligation		83,771
Adjustment to the annual required contribution		<u>(53,327)</u>
Annual OPEB cost		586,281

Ionia County Road Commission

Notes to Financial Statements

Amounts contributed:	
Payment of current premiums	(258,300)
Advance funding	-
Increase in net OPEB obligation	327,981
OPEB obligation – beginning of year	1,196,730
OPEB obligation – end of year	\$ 1,524,711

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
12/31/2014	\$ 238,586	103%	\$ 997,022
12/31/2015	401,885	50%	1,196,730
12/31/2016	586,281	47%	1,524,711

The funding progress of the plan as of December 31, 2014 (the most recent valuation date) is as follows:

Actuarial value of assets	\$ 141,235
Actuarial accrued liability (AAL)	8,277,576
Unfunded actuarial accrued liability (UAAL)	8,136,341
Funded ratio	1.7%
Annual covered payroll – 12/31/14	1,885,320
Ratio of UAAL to covered payroll	432%

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities (AALs) for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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 following simplifying assumptions were made:

Retirement age for active employees

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Ionia County Road Commission

Notes to Financial Statements

Marital status

Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality

Life expectancies were based on mortality tables from the United States Social Security Administration. The 2011 Period Life Table for males and females was used.

Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate

The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 3.1% initially, with gradual increases and decreases through 2021, leveling to an ultimate rate of 4.7% after six (6) years was used.

Healthcare premiums

2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate

The expected long-term inflation assumption of 2.8% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

In the December 31, 2014 actuarial valuation, the entry age cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan and the valuation date. As the Road Commission commences funding of the plan, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a multiple-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed 30-year basis. The remaining amortization period at December 31, 2014 was 29 years.

Defined Benefit Pension Plan

Plan Description

The Road Commission participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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.

Ionia County Road Commission

Notes to Financial Statements

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. Retirement benefits are calculated as 2.0% of the employee's final five-year average salary times the employee's years of service. Normal retirement age is 60 years, with early retirement at 50 with 25 years of service (reduced) or 55 with 30 years of service (unreduced). The vesting period is 10 years. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are always the larger of the benefit computed as a contingent survivor beneficiary or 85% of accrued retirement allowance benefit. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual non-compounded cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date of 2.5%. Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Board of County Road Commissioners, generally after negotiations of these terms with the labor union.

Employees Covered by the Benefit Term

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

Inactive plan members or beneficiaries currently receiving benefits	42
Inactive plan members entitled to but not yet receiving benefits	2
Active employees	38
Total participants	82

Contribution Requirements

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

For the current year, the Road Commission's actuarially determined contribution rate was 34.92% of annual covered payroll. Road Commission employees are required to contribute 6% of their annual covered payroll.

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	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75%, net of investment expense and including inflation

Ionia County Road Commission

Notes to Financial Statements

Mortality rates were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study dated in 2015 that covers the period from January 1, 2009 through December 31, 2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.87%
Global fixed income	20.00	2.18	0.44
Real assets	12.50	4.23	0.53
Diversifying strategies	10.00	6.56	0.66
	100.00%		
Inflation			2.50
Administrative expenses netted above			0.75
Investment rate of return			7.75%

Discount Rate - The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers.

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

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 actuarial valuation as of December 31, 2015.

Ionia County Road Commission

Notes to Financial Statements

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 15,399,253	\$ 6,198,791	\$ 9,200,462
Service cost	183,898	-	183,898
Interest	1,240,839	-	1,240,839
Changes in benefits	(16,340)	-	(16,340)
Difference in expected and actual experience	(300,963)	-	(300,963)
Changes in assumptions	939,593	-	939,593
Employer contributions	-	736,112	(736,112)
Employee contributions	-	87,551	(87,551)
Net investment income	-	(90,968)	90,968
Benefit payments	(901,452)	(901,452)	-
Administrative expenses	-	(13,433)	13,433
Net changes	1,145,575	(182,190)	1,327,765
Balance at December 31, 2015	\$ 16,544,828	\$ 6,016,601	\$ 10,528,227

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Road Commission's net pension liability, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease in Rate to <u>7.00%</u>	Assumed Discount Rate <u>8.00%</u>	1% Increase in Rate to <u>9.00%</u>
Net Pension Liability	\$ 12,427,447	\$ 10,528,227	\$ 8,920,016

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Ionia County Road Commission

Notes to Financial Statements

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

During the year the Road Commission recognized pension expense of \$384,043. At year-end, the Road Commission reported deferred outflows and inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 816,738	\$ -
Net difference between projected and actual earnings on pension plan investments	603,503	-
Changes in assumptions	626,395	-
Differences between expected and actual experience	-	200,642
Total	\$ 2,046,636	\$ 200,642

The amount reported as deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments will be recognized as pension expense as follows:

Year Ending December 31,	Net Amount
2017	\$ 374,138
2018	374,138
2019	161,260
2020	119,720
Total	\$ 1,029,256

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date (\$816,738) will impact the net pension liability in 2017, as opposed to being amortized to pension expense over a period of years.

Advances and Deposits

The balance reported as advances consists of monies advanced by the State of Michigan and contractor escrow deposits. Under provisions of the State trunkline maintenance contract, the state advances funds to the Road Commission for maintenance costs and equipment purchases. The advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The Road Commission requires escrow deposits from contractors for various projects. The following is a summary of the balance, by source and use:

State –	
Trunkline maintenance	\$ 99,335
Equipment	206,249
Local – Escrow deposits	7,331
Total	\$ 312,915

Ionia County Road Commission

Notes to Financial Statements

Equipment Expenditure Net Balance

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as expenditures in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net amount reported as equipment expenditures for the year was comprised of the following:

Equipment –	
Direct	\$ 1,312,266
Indirect	601,345
Operating	223,322
Less equipment rental	(2,329,686)
Total	\$ (192,753)

Capital Outlay Expenditure Balance

On the governmental financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements are also reported as a credit against capital outlay. The net amount reported as capital outlay expenditures for the year was comprised of the following:

Capital outlay –	
Road equipment	\$ 715,575
Yard and storage equipment	53,345
Office equipment	3,626
Depletable assets	90,176
Less equipment retirements	(160)
Less depreciation / depletion	(522,285)
Total	\$ 340,277

Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims.

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to

Ionia County Road Commission

Notes to Financial Statements

the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Contingencies

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

Federal Award Expenditure / Single Audit

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, the Federal aid received and expended by the Road Commission was \$942,899 for contracted projects and \$0 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 it expended \$750,000 or more for negotiated projects.



REQUIRED SUPPLEMENTARY INFORMATION

Ionia County Road Commission

Required Supplementary Information Budgetary Comparison Schedule - General Operating / Road Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Licenses and permits	\$ 65,037	\$ 75,000	\$ 75,614	\$ 614
Intergovernmental				
Federal sources	2,052,200	908,800	942,899	34,099
State sources	5,782,886	6,869,900	6,812,896	(57,004)
Local sources	1,751,009	1,858,500	1,947,451	88,951
Charges for services	1,167,462	3,100,000	3,301,574	201,574
Interest and rents	12,000	1,200	1,619	419
Other	40,000	87,903	72,903	(15,000)
Total revenue	10,870,594	12,901,303	13,154,956	253,653
Expenditures				
Current				
Primary preservation - structural improvements	3,024,000	2,755,000	2,857,525	102,525
Local preservation - structural improvements	700,000	1,185,000	1,118,633	(66,367)
Primary maintenance	2,291,279	3,357,000	3,413,005	56,005
Local maintenance	2,455,478	2,750,000	2,764,501	14,501
State maintenance	1,167,462	1,600,000	1,673,868	73,868
State non-maintenance	-	1,465,000	1,463,337	(1,663)
Administrative	540,300	245,000	236,408	(8,592)
Equipment - net	229,942	(205,000)	(192,753)	12,247
Other	30,000	40,300	48,833	8,533
Capital outlay - net	430,700	543,180	340,277	(202,903)
Debt service	126,988	125,170	125,170	-
Total expenditures	10,996,149	13,860,650	13,848,804	(11,846)
Excess of revenue over (under) expenditures	(125,555)	(959,347)	(693,848)	265,499
Other financing sources				
Installment purchase proceeds	-	-	202,480	202,480
Net change in fund balance	(125,555)	(959,347)	(491,368)	467,979
Fund balance				
Beginning of the year	1,892,224	2,761,647	2,761,621	(26)
End of the year	\$ 1,766,669	\$ 1,802,300	\$ 2,270,253	\$ 467,953

Ionia County Road Commission
Required Supplementary Information
Schedule of Funding Progress

Postemployment Healthcare (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2008	\$ 100,000	\$ 5,188,545	\$ 5,088,545	1.9%	\$ 1,898,074	268%
12/31/2011	105,731	4,888,349	4,782,618	2.2%	1,700,070	281%
12/31/2014*	141,235	8,277,576	8,136,341	1.7%	1,885,320	432%

* *the most current actuarial valuation date*

Ionia County Road Commission

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Valuation Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2006* to 2013*</u>
Total pension liability			
Service cost	\$ 194,033	\$ 190,229	---
Interest	1,241,257	1,194,694	---
Changes of benefit terms	-	-	---
Differences between expected and actual experience	-	-	---
Changes in assumptions	-	-	---
Benefit payments	(901,452)	(829,003)	---
Other changes	(9,286)	3,262	---
Net change in total pension liability	<u>524,552</u>	<u>559,182</u>	---
Total pension liability - beginning	<u>15,399,253</u>	<u>14,840,071</u>	---
Total pension liability - ending	<u><u>\$ 15,923,805</u></u>	<u><u>\$ 15,399,253</u></u>	---
Plan fiduciary net position			
Contributions - employer	\$ 736,112	\$ 847,936	---
Contributions - member	87,551	95,174	---
Net investment income (loss), net	(90,968)	363,684	---
Benefit payments, including refunds of member contributions	(901,452)	(829,003)	---
Administrative expenses	(13,433)	(13,345)	---
Other	-	-	---
Net change in fiduciary net position	<u>(182,190)</u>	<u>464,446</u>	---
Fiduciary net position - beginning	<u>6,198,791</u>	<u>5,734,345</u>	---
Fiduciary net position - ending	<u><u>\$ 6,016,601</u></u>	<u><u>\$ 6,198,791</u></u>	---
Net pension liability - ending	<u><u>\$ 9,907,204</u></u>	<u><u>\$ 9,200,462</u></u>	---
Fiduciary net position as a percentage of the total pension liability	62.22%	59.75%	---
Covered-employee payroll	\$ 1,885,320	\$ 1,788,822	---
Net pension liability as percentage of covered-employee payroll	525.49%	514.33%	---

* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2006 through 2013 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

OTHER SUPPLEMENTARY INFORMATION

Ionia County Road Commission

Other Supplementary Information Schedule of Road Fund Revenue and Other Financing Sources

For the Year Ended December 31, 2016

	Primary Road	Local Road	County Road	Total
Licenses and permits	\$ -	\$ -	\$ 75,614	\$ 75,614
Federal sources				
Surface Tran. Program (STP)	626,197	-	-	626,197
Other - Safety / FHWA grant	316,702	-	-	316,702
State sources				
Michigan Transportation Fund				
Engineering	6,638	3,362	-	10,000
Urban road	243,125	60,675	-	303,800
Allocation	3,249,041	1,645,555	-	4,894,596
Local bridge	1,206,624	-	-	1,206,624
Other	-	-	397,876	397,876
Contributions from local units				
Townships	313,132	1,591,773	-	1,904,905
Other	-	-	42,546	42,546
Charges for services				
State trunkline maintenance	1,824,402	-	-	1,824,402
State trunkline non-maintenance	1,463,337	-	-	1,463,337
Other	-	-	13,835	13,835
Interest earned on deposits	-	-	1,169	1,169
Property rentals	-	-	450	450
Other				
Proceeds from sale of capital assets	72,903	-	-	72,903
Total revenue	9,322,101	3,301,365	531,490	13,154,956
Other financing sources				
Installment purchase proceeds	202,480	-	-	202,480
Total revenue and other financing sources	\$ 9,524,581	\$ 3,301,365	\$ 531,490	\$ 13,357,436

Ionia County Road Commission

Other Supplementary Information Schedule of Road Fund Expenditures

For the Year Ended December 31, 2016

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Primary road				
Preservation / structural improvements	\$ 1,481,799	\$ -	\$ -	\$ 1,481,799
Maintenance	2,927,805	-	-	2,927,805
Winter maintenance	483,260	-	-	483,260
Local road				
Preservation / structural improvements	-	1,118,633	-	1,118,633
Maintenance	-	2,342,890	-	2,342,890
Winter maintenance	-	417,716	-	417,716
Primary road structure				
Preservation / structural improvements	1,375,726	-	-	1,375,726
Maintenance	1,940	-	-	1,940
Local road structure				
Maintenance	-	3,895	-	3,895
State trunkline				
Maintenance	1,673,868	-	-	1,673,868
Non-maintenance	1,463,337	-	-	1,463,337
Administrative - net	145,997	90,411	-	236,408
Equipment - net	(89,693)	(94,595)	(8,465)	(192,753)
Capital outlay - net	340,277	-	-	340,277
Debt service				
Principal payments	116,002	-	-	116,002
Interest / fees	9,168	-	-	9,168
Other	3,979	2,438	42,416	48,833
Total expenditures	<u>\$ 9,933,465</u>	<u>\$ 3,881,388</u>	<u>\$ 33,951</u>	<u>\$ 13,848,804</u>

Ionia County Road Commission
Other Supplementary Information
Schedule of Changes in Road Fund Balances
For the Year Ended December 31, 2016

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Total revenue	\$ 9,322,101	\$ 3,301,365	\$ 531,490	\$ 13,154,956
Total expenditures	<u>9,933,465</u>	<u>3,881,388</u>	<u>33,951</u>	<u>13,848,804</u>
Excess of revenue over (under) expenditures	(611,364)	(580,023)	497,539	(693,848)
Other financing sources (uses)				
Optional transfers	408,884	580,023	(988,907)	-
Installment purchase proceeds	<u>202,480</u>	<u>-</u>	<u>-</u>	<u>202,480</u>
Total other financing sources (uses)	<u>611,364</u>	<u>580,023</u>	<u>(988,907)</u>	<u>202,480</u>
Excess of revenue and other financing sources over (under) expenditures	-	-	(491,368)	(491,368)
Fund balance				
Beginning of the year	<u>-</u>	<u>-</u>	<u>2,761,621</u>	<u>2,761,621</u>
End of the year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,270,253</u></u>	<u><u>\$ 2,270,253</u></u>



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A VETERAN OWNED BUSINESS

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

To the Board of County Road Commissioners
County of Ionia, Michigan
Ionia, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***Ionia County Road Commission***, a component unit of Ionia County, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the ***Ionia County Road Commission's*** basic financial statements and have issued our report thereon dated May 22, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Smith + Klayhenwig PC

Saginaw, Michigan

May 22, 2017