

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County, Michigan)

Notes to Financial Statements

8. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of December 31, 2014, was as follows:

	Governmental Activities
Capital assets	
Not being depreciated	\$ 28,173,688
Being depreciated, net	43,746,070
	<u>71,919,758</u>
Related debt	
Bonds payable	575,000
Equipment lease	1,228,927
	<u>1,803,927</u>
Net investment in capital assets	<u>\$ 70,115,831</u>

9. PENSION PLANS

Defined Benefit Pension Plan

Plan Description. The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. Eligible employees for this plan were hired prior to April 1, 1996. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy. The Road Commission is required to contribute fixed amounts for the closed divisions. Closed divisions no longer allow new employees to become members of the defined benefit pension plan. Employees are currently not required to contribute to the Plan. The Road Commission does not have any open divisions. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County, Michigan)

Notes to Financial Statements

Annual Pension Cost. For the year ended December 31, 2014, the Road Commission's annual pension cost of \$484,104 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 1.0% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 13.0% per year, depending on age, attributable to seniority/merit. Although no specific price inflation assumption is used for this valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% to 4%. The actuarial value of MERS assets was determined based on a 10-year smoothed value of assets. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 the date of the latest actuarial valuation was 5 years.

Three-Year Trend Information			
Years Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2012	\$ 306,480	100%	\$ -
2013	386,460	100%	-
2014	484,104	100%	-

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was 65.8 percent funded. The actuarial accrued liability for benefits was \$9,475,876, and the actuarial value of assets was \$6,236,384, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,239,492. The covered payroll (annual payroll of active employees covered by the plan) was \$226,661 and the ratio of the UAAL to the covered payroll was 1,429 percent.

Defined Contribution Pension Plan

The Road Commission maintains a defined contribution plan administered by MERS for those employees that do not participate in the defined benefit pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Administrative employees are eligible to participate from the date of employment. Union employees are eligible after one year as established by agreement. The Road Commission contributes 9% of administrative and 8% of union personnel gross earnings, respectively plus match employee contributions in an amount equal to 3% administrative and 2% union. Contributions for each employee (adjusted for gains and losses allocated to the employee's account) are vested 20%, 40%, 60%, 80% and 100% in years two through six, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

During 2014, the Road Commission contributed \$177,814 and employees contributed \$39,991.

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County, Michigan)

Notes to Financial Statements

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Road Commission provides health care benefits to its retired employees, as established by Resolution of the Board of County Road Commissioners. The Road Commission pays medical premiums or reimburses a prescribed amount of medical expenses for employees based on age and years of service at the time of retirement.

Plan Membership

Plan membership consisted of the following at December 31, 2014 (the date of the latest actuarial valuation):

Retirees and beneficiaries currently receiving benefits	52
Active participants	46

Funding Policy

The Road Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation

For 2014, the components of the Road Commission's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the Road Commission's net OPEB obligation to the Plan are as follows:

Annual required contribution	\$ 254,401
Interest on net OPEB obligation	99,647
Adjustment to annual required contribution	<u>(157,104)</u>
Annual OPEB cost (expense)	196,944
Contributions made	<u>(171,300)</u>
Increase in net OPEB obligation	25,644
Net OPEB obligation, beginning of year	<u>2,491,184</u>
Net OPEB obligation, end of year	<u>\$ 2,516,828</u>

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County, Michigan)

Notes to Financial Statements

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, was as follows:

Years Ended December 31,	Annual OPEB Cost	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
2012	\$ 542,351	\$ 158,063	27.4%	\$ 2,056,716
2013	593,776	159,308	27.1%	2,491,184
2014	196,944	171,300	67.3%	2,516,828

Funded Status and Funding Progress

The plan was 5.0 percent funded as of December 31, 2014, the date of the latest actuarial valuation. The actuarial accrued liability for benefits was \$2,877,173, and the actuarial value of assets was \$143,983, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,733,190. The covered payroll and the ratio of the UAAL to the covered payroll are not available.

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 to past expectations and new estimates are made about the future. 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 plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing 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.

Significant methods and assumptions were as follows:

Actuarial valuation date	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	24 years
Actuarial assumptions:	
Investment rate of return	4%
Healthcare inflation rate	9.0% downgraded to 5% over 4 years

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (A Component Unit of Grand Traverse County, Michigan)

Required Supplementary Information
 Municipal Employer Retirement System of Michigan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/B)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2009	\$ 7,184,722	\$ 9,494,975	\$ 2,310,253	75.7%	\$ 614,429	376%
2010	6,953,860	9,612,932	2,659,072	72.3%	467,908	568%
2011	6,742,101	9,708,395	2,966,294	69.4%	487,950	608%
2012	6,452,602	9,735,506	3,282,904	66.3%	305,998	1073%
2013	6,296,343	9,674,917	3,378,574	65.1%	311,950	1083%
2014	6,236,384	9,475,876	3,239,492	65.8%	226,661	1429%

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2009	\$ 161,892	100%
2010	205,680	100%
2011	258,900	100%
2012	306,480	100%
2013	386,460	100%
2014	484,104	100%

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (A Component Unit of Grand Traverse County, Michigan)

Required Supplementary Information

Other Postemployment Benefits Plan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2008	\$ -	\$ 6,695,670	\$ 6,695,670	0.0%	Not available	Not available
12/31/2011	30,000	5,571,962	5,541,962	0.5%	Not available	Not available
12/31/2014	143,983	2,877,173	2,733,190	5.0%	Not available	Not available

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2009	\$ 648,229	30.1%
2010	660,801	20.1%
2011	528,310	25.0%
2012	576,069	27.4%
2013	586,780	27.1%
2014	254,401	67.3%