

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

7. RISK MANAGEMENT

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission mitigates risk by carrying workers' compensation insurance through the County Road Association Self-Insurance Fund. The Road Commission is also a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP). The insurance coverage provided by MCRCSIP includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunk line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of MCRCSIP and is based on miles of roads, population and prior claim history. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to MCRCSIP.

8. RETIREMENT PLANS

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The plan is closed to new entrants. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits provided

Benefits provided include plans with multipliers ranging from 2.25 to 2.50. Vesting period of 6-10 years. Normal retirement age is 60. Final average compensation is calculated based on a 5 years average.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2015):

Inactive employees or beneficiaries currently receiving benefits	59
Inactive employees entitled but not yet receiving benefits	3
Active plan members	2
Total	64

Contributions

The Commission is required to contribute at an actuarially determined amount, which for the current year was \$654,636. Actual contributions for the year were \$1,454,636 which is \$800,000 in excess of the actuarial required contribution. Participating employees are not required to contribute to the Plan. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined utilizing roll forward procedures as part of the annual actuarial valuation as of December 31, 2015.

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age) (4.5 for 2014)

Investment rate of return: 7.75%, net of investment expense, including inflation (8.25% for 2014)

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

The actuarial assumptions used in the valuation were based on the results of the 2015 actuarial experience study.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Money Weighted Rate of Return</u>
Global Equity	57.5%	6.27%	3.60%
Global Fixed Income	20.0%	3.43%	0.68%
Real Assets	12.5%	5.48%	0.69%
Diversifying Strategies	10.0%	7.81%	0.78%
Inflation			2.00%
Administrative fee			0.25%
			<hr/>
Investment rate of return			8.00%
			<hr/>

Discount rate. The discount rate used to measure the total pension liability is 8.00% which declined by .25% from the prior year. 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. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Changes in the Net Pension Liability
Increase (Decrease)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 1/1/16	\$9,141,067	\$5,453,540	\$3,687,527
Changes for the Year:			
Service cost	8,471	-	8,471
Interest	693,212	-	693,212
Change in benefits	-	-	-
Differences between expected and actual experience	91,234	-	91,234
Change in assumptions	430,437	-	430,437
Contributions : employer	-	1,454,636	(1,454,636)
Contributions: employee	-	-	-
Net investment Income	-	655,362	(655,362)
Benefit payments, including refunds	(960,311)	(960,311)	-
Administrative expense	-	(12,834)	12,834
Other changes	17,244	-	17,244
Net changes	280,287	1,136,853	(856,566)
Balance at 12/31/16	\$9,421,354	\$6,590,393	\$2,830,961

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease	Current Discount rate	1% increase
Total Pension Liability	\$10,219,099	\$9,421,354	\$8,727,779
Fiduciary Net Position	6,590,393	6,590,393	6,590,393
Net Pension Liability	\$3,628,706	\$2,830,961	\$2,137,386

For the year ended December 31, 2016 the employer recognized pension expense of \$686,624. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess(Deficit) Investment Returns	173,644	-
Contributions subsequent to the measurement date	-	-
Total	\$173,644	\$ -

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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

2017	\$ 71,203
2018	71,203
2019	71,202
2020	(39,964)
2021	-
Thereafter	-
 	<hr/>
Total	<u>\$173,644</u>

Defined Contribution Pension Plan

The Commission maintains a defined contribution plan administered by MERS for those employees who 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 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 2016, the Commission contributed \$197,154 and employees contributed \$45,624 towards the defined contribution plan.

9. POST-EMPLOYMENT BENEFITS

Defined Benefit Plan

The Commission provides health care benefits to retirees and their survivor as established by resolution of the County Road Commission. Under the Plan, a \$500 monthly stipend is provided to early retirees for health care expenses until age 65 (Medicare eligible). Retirees age 65 and older receive a \$112/\$224 monthly stipend for gap insurance. The plan currently provides benefits to 47 retirees and 13 survivors. The plan is not open to active employees. During the year, the Commission contributed \$175,032 to the Plan.

The following table shows the components of the Commissions annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission OPEB obligation to the plan.

Annual required contribution	\$ 97,580
Interest on Net OPEB obligation	101,852
Adjustment to annual required contribution	<u>(231,783)</u>
Annual OPEB cost (expense)	(32,351)
Contribution made	<u>175,032</u>
Increase (decrease) in net OPEB obligation	(207,383)
Net OPEB obligation, beginning of year	<u>2,546,289</u>
Net OPEB obligation, end of year	<u>\$2,338,906</u>

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/14	\$196,944	87.0%	\$2,516,828
12/31/15	202,131	85.4%	2,546,289
12/31/16	(32,351)	N/A	2,338,906

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Market</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/16	\$155,960	\$1,224,136	\$1,068,176	12.7%	n/a	n/a

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 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 expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Commission is currently funding the plan based on its discretion.

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 the 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 calculation.

In the December 31, 2016, actuarial valuation, the projected unit credit actuarial cost method, level dollar, and closed amortization method were used. The remaining amortization period at December 31, 2016, was 14 years. The actuarial assumptions included a 4% return on plan assets and a discount rate of 4%.

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

Defined Contribution Plan

The Commission administers a single-employer defined contribution Retirement Health Savings account (the Retiree Health Savings Plan). The Commission contributes \$80 monthly to a healthcare savings plan (HCSP) for all fulltime employees. In addition the commission provided additional one time contributions during 2016. The Commission plan contribution requirements were established and may be amended under the authority of the Board of County Road Commissioners. The Plan has no vesting period. During the year the commission contributed \$18,800 to the plan.

**GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)**

**DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION
LIABILITY AND RELATED RATIOS**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2015</u>	<u>2016</u>
Total pension liability		
Service cost	\$ 18,465	\$ 8,471
Interest	728,316	693,212
Changes in benefit terms	-	-
Difference between expected and actual experience	-	91,234
Changes in assumptions	-	430,437
Change in benefits	-	-
Difference between expected and actual experience	-	-
Change in assumptions	-	-
Benefit payments including employee refunds	(951,391)	(960,311)
Other changes	<u>51,136</u>	<u>17,244</u>
Other	-	-
Net change in total pension liability	<u>(153,474)</u>	<u>280,287</u>
Total pension liability, beginning of year	<u>9,294,541</u>	<u>9,141,067</u>
Total pension liability, ending of year	<u>\$ 9,141,067</u>	<u>\$ 9,421,354</u>
 Plan Fiduciary Net Position		
Contributions-employer	\$ 618,432	\$ 1,454,636
Contributions-employee	-	-
Net investment income	(84,678)	655,362
Benefit payments including employee refunds	(951,391)	(960,311)
Administrative expense	<u>(12,553)</u>	<u>(12,834)</u>
Net change in plan fiduciary net position	<u>(430,190)</u>	<u>1,136,853</u>
Plan fiduciary net position, beginning of year	<u>5,883,730</u>	<u>5,453,540</u>
Plan fiduciary net position, ending of year	<u>\$ 5,453,540</u>	<u>\$ 6,590,393</u>
 Employer net pension liability	<u>\$ 3,687,527</u>	<u>\$ 2,830,961</u>
 Plan fiduciary net position as a percentage of the total pension liability	60%	70%
 Covered employee payroll	\$ 226,661	\$ 93,103
 Employer's net pension liability as a percentage of covered employee payroll	1627%	3041%

**GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)**

**DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2015</u>	<u>2016</u>
Actuarial determined contributions	\$ 618,432	\$ 1,454,636
Contributions in relation to the actuarially determined contribution	618,432	654,636
Contribution (deficiency) excess	<u>\$ -</u>	<u>\$ 800,000</u>
 Covered employee payroll	 \$ 226,661	 \$ 93,103
 Contributions as a percentage of covered employee payroll	 273%	 703%
 Actuarial cost method	Entry Age	
Amortization method	Level percentage of payroll, open	
Remaining amortization period	25 years	
Asset valuation method	5 year smoothed (10 years for 2014)	
Inflation	2.5% (3-4% for 2014)	
Salary increases	3.75% (4.5 for 2014)	
Investment rate of return	7.75% (8.00 for 2014)	
Retirement age	Varies depending on plan adoption	
Mortality	50% female/ 50% male RP-2014 mortality table annuity mortality table	

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

RETIREE HEALTH POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ -	\$ 6,695,670	\$ (6,695,670)	0.00%	not available	not available
12/31/2011	30,000	5,571,962	(5,541,962)	0.54%	not available	not available
12/31/2014	143,983	2,877,173	(2,733,190)	5.00%	not available	not available
12/31/2016	155,960	1,224,136	(1,068,176)	12.74%	not available	not available

SCHEDULE OF EMPLOYER CONTRIBUTION

<u>Year Ended December 31,</u>	<u>Employer Contribution</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2013	\$159,308	\$586,780	27%
2014	171,300	254,401	67%
2015	172,670	264,348	65%
2016	175,032	(32,351)	N/A

Note to required supplementary information

Budgets and Budgetary Accounting

The Commission adopts an annual budget for the general fund following the GAAP basis of accounting. Unexpended appropriations lapse at year-end.

GENERAL FUND SCHEDULE