

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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 property values and 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

Defined Benefit Pension Plan

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, 2017):

Inactive employees or beneficiaries currently receiving benefits	54
Inactive employees entitled but not yet receiving benefits	3
Active plan members	2
 Total	 59

Contributions

The Commission is required to contribute at an actuarially determined amount, which for the current year was \$731,520. Actual contributions for the year were \$1,208,374 which is \$476,854 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.

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Net Pension Liability

The employer's net pension liability was measured as of December 31, 2018, 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, 2017.

The total pension liability in the December 31, 2017 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%. 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.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at January 1, 2018	\$9,014,963	\$7,972,501	\$1,042,462
Changes for the Year:			
Service cost	8,166	-	8,166
Interest	684,961	-	684,961
Change in benefits	-	-	-
Differences between expected and actual experience	11,278	-	11,278
Change in assumptions	-	-	-
Contributions : employer	-	1,208,374	(1,208,374)
Contributions: employee	-	-	-
Net investment income	-	(285,143)	285,143
Benefit payments, including refunds	(914,065)	(914,065)	-
Administrative expense	-	(14,787)	14,787
Other changes	8,190	-	8,190
Net changes	(201,470)	(5,621)	(195,849)
Balance at December 31, 2018	\$8,813,493	\$7,966,880	\$846,613

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	\$9,503,797	\$8,813,493	\$8,209,098
Fiduciary Net Position	7,966,880	7,966,880	7,966,880
Net Pension Liability	\$1,536,917	\$ 846,613	\$ 242,218

For the year ended December 31, 2018 the employer recognized pension expense of \$273,435. 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	589,555	-
Contributions subsequent to the measurement date	-	-
Total	\$589,555	\$ -

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

2017	\$195,033
2018	83,867
2019	123,831
2020	186,824
2021	-
Thereafter	-
Total	\$589,555

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 2018, the Commission contributed \$225,421 and employees contributed \$52,301 towards the defined contribution plan.

9. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Grand Traverse County Road Commission (the Commission) administers a single-employer defined benefit healthcare plans. The plan provides healthcare benefits to eligible retirees, in accordance with the Commission's policy and employment agreements. The Retiree Health Plan does not issue a publicly available financial report. The actuarial valuation was prepared using the alternative method as provided for in Governmental Accounting Standards Board Statement No. 75.

Benefits Provided

Only employees retiring before May 1, 2016 are eligible for the following retiree medical coverage stipend:

- Early retirees – eligible for \$500 monthly stipend until age 65 (no benefits provided subsequent to age 65)
- Past retirees – eligible for \$112/224 monthly stipend until death (retiree and spouse received \$112 each)

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FOR THE YEAR ENDED DECEMBER 31, 2018

Membership of the Plan consisted of the following at the date of the latest valuation (December 31, 2018):

Early retirees	
\$500 monthly stipend – retiree	7
Current retirees	
\$122 monthly stipend – retiree	45
\$122 monthly stipend – retiree spouse	29
Total	81

Contributions

The Commission has no obligation to make contributions in advance of when the stipend is paid (in other words, the Plan may be financed on a “pay-as-you-go” basis). Participants do not make contributions to the Plan. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

Net OPEB Liability

The employer’s net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an annual valuation as of that date.

The total OPEB liability in the December 31, 2018 annual valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation: Not applicable due to a fixed stipend not expected to change over time

Salary increases: Not applicable due to closed plan status with no active participants
Investment rate of return: 3% (unfunded status is consistent with Michigan Department of Treasury requirements and generally accepted accounting principles (GAAP))

Healthcare cost trend rates: Not applicable due to a fixed stipend not expected to change over time

Mortality rates were based on the 2014 life tables for males or females, as appropriate, from the Centers for Disease Control.

The assumptions used in valuation were based on the results of the most recent actuarial experience study and State of Michigan requirements.

Discount rate. The discount rate used to measure the total OPEB liability is 3% (20 year AA/Aa tax exempt municipal bond yield). Because the plan does not have a reasonably funded OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. A discount rate is used of determine the Total OPEB Liability. December 31, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

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Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at January 1, 2018	\$1,155,464	\$107,826	\$1,047,638
Changes for the Year:			
Service cost	34,664	-	34,664
Interest	-	-	-
Change in benefits	-	-	-
Differences between expected and actual experience	28,002	-	28,002
Change in assumptions	-	-	-
Contributions: employer	-	-	-
Contributions: employee	-	-	-
Net investment Income	-	1,106	(1,106)
Benefit payments, including refunds	(143,172)	(106,304)	(38,868)
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	(80,506)	(105,198)	24,692
Balance at December 31, 2018	\$1,074,958	\$2,628	\$1,072,330

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

The following presents the net OPEB liability of the employer, calculated using the discount rate of 3%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower (2%) or 1% higher (4%) than the current rate.

	Current		
	1% Decrease	Discount rate	1% Increase
Total OPEB liability	\$1,146,908	\$1,074,958	\$1,010,089

Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate.

	Current		
	1% Decrease	healthcare cost trend rate	1% Increase
Total OPEB liability	\$1,074,958	\$1,074,958	\$1,074,958

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018 the employer recognized OPEB expense of \$61,560

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Defined Contribution OPEB 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 and employees are required to contribute 1% of coverage wages. 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 \$36,720 and employees contributed \$37,135 to the plan.

10. LITIGATION

In the normal course of its operations, the Commission has become a party in various legal actions. Management of the Commission is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Commission. Any losses related to legal actions have not been included as a liability in the financial statements as they are expected to be fully covered by insurance.

11. COMMITMENTS

At year end the Commission has outstanding commitments of approximately \$950,000 for road projects, \$330,000 for building improvements and \$1,300,000 for new equipment.

12. SINGLE AUDIT

Governmental and certain other entities, which expend \$750,000 or more of federal funding, are subject to a single audit in accordance with the uniform guidance CFR200. The Commission reported \$56,004 of federal/state revenue for projects, which were primarily administered by the Michigan Department of Transportation (MDOT) and were audited as a component of the State of Michigan's single audit. Because federal dollars expended directly by the Commission were less than \$750,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

GRAND TRAVERSE COUNTY ROAD COMMISSION
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DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION
LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total pension liability				
Service cost	\$ 18,465	\$ 8,471	\$ 8,085	\$ 8,166
Interest	728,316	693,212	717,457	684,961
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	-	91,234	(207,073)	11,278
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)	(914,379)	(914,065)
Other changes	51,136	17,244	(10,481)	8,190
Other	-	-	-	-
Net change in total pension liability	<u>(153,474)</u>	<u>280,287</u>	<u>(406,391)</u>	<u>(201,470)</u>
Total pension liability, beginning of year	<u>9,294,541</u>	<u>9,141,067</u>	<u>9,421,354</u>	<u>9,014,963</u>
Total pension liability, end of year	<u>\$ 9,141,067</u>	<u>\$ 9,421,354</u>	<u>\$ 9,014,963</u>	<u>\$ 8,813,493</u>
Plan fiduciary net position				
Contributions-employer	\$ 618,432	\$ 1,454,636	\$ 1,447,188	\$ 1,208,374
Contributions-employee	-	-	-	-
Net investment income	(84,678)	655,362	862,966	(285,143)
Benefit payments including employee refunds	(951,391)	(960,311)	(914,379)	(914,065)
Administrative expense	(12,553)	(12,834)	(13,667)	(14,787)
Net change in plan fiduciary net position	<u>(430,190)</u>	<u>1,136,853</u>	<u>1,382,108</u>	<u>(5,621)</u>
Plan fiduciary net position, beginning of year	<u>5,883,730</u>	<u>5,453,540</u>	<u>6,590,393</u>	<u>7,972,501</u>
Plan fiduciary net position, end of year	<u>\$ 5,453,540</u>	<u>\$ 6,590,393</u>	<u>\$ 7,972,501</u>	<u>\$ 7,966,880</u>
Employer net pension liability	<u>\$ 3,687,527</u>	<u>\$ 2,830,961</u>	<u>\$ 1,042,462</u>	<u>\$ 846,613</u>
Plan fiduciary net position as a percentage of the total pension liability	60%	70%	88%	90%
Covered employee payroll	\$ 226,661	\$ 93,103	\$ 88,257	\$ 89,172
Employer's net pension liability as a percentage of covered employee payroll	1627%	3041%	1181%	949%

GRAND TRAVERSE COUNTY ROAD COMMISSION
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DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial determined contributions	\$ 618,432	\$ 654,636	\$ 715,668	\$ 731,520
Contributions in relation to the actuarially determined contribution	618,432	1,454,636	1,447,188	1,208,374
Contribution (deficiency) excess	<u>\$ -</u>	<u>\$ 800,000</u>	<u>\$ 731,520</u>	<u>\$ 476,854</u>
 Covered employee payroll	 \$ 226,661	 \$ 93,103	 \$ 88,257	 \$ 89,172
 Contributions as a percentage of covered employee payroll	 273%	 1562%	 1640%	 1355%
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			

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018
Total OPEB liability	
Service cost	\$ -
Interest	34,664
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Change in benefits	-
Difference between expected and actual experience	28,002
Change in assumptions	-
Benefit payments including employee refunds	(143,172)
Other changes	-
Net change in total pension liability	(80,506)
Total OPEB liability, beginning of year	1,155,464
Total OPEB liability, end of year	\$ 1,074,958
 Plan fiduciary net position	
Contributions-employer	\$ -
Contributions-employee	-
Net investment income	1,106
Benefit payments including employee refunds	(106,304)
Administrative expense	-
Net change in plan fiduciary net position	(105,198)
Plan fiduciary net position, beginning of year	107,826
Plan fiduciary net position, end of year	\$ 2,628
 Employer net OPEB liability	\$ 1,072,330
 Plan fiduciary net position as a percentage of the total OPEB liability	0%
 Covered employee payroll	\$ -
 Employer's net OPEB liability as a percentage of covered employee payroll	N/A%