

OTTAWA COUNTY ROAD COMMISSION

(A Component Unit of Ottawa County)

Ottawa County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017



Vredeveld Haefner LLC
CPAs and Consultants

OTTAWA COUNTY ROAD COMMISSION
(A Component Unit of Ottawa County)

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INDEPENDENT AUDITORS' REPORT

January 29, 2018

Ottawa County Road Commission
Board of Commissioners
Grand Haven, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 and the major fund, of the Ottawa County Road Commission, as of September 30, 2017, 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 on pages 3 through 7 and required supplementary information on pages 29 through 32 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 Ottawa County Road Commission's basic financial statements. The general fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The general fund 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 general fund 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 January 29, 2018, on our consideration of the Ottawa 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 Ottawa County Road Commission's internal control over financial reporting and compliance.

Uredaxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Ottawa County Road Commission (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- MTF increased by \$4,951,830 or 3% due to a gas tax increase which began January 1, 2017
- Significant capital asset additions included \$1.1 million towards construction of salt storage facilities; \$900,000 for a dump/plow trucks; and approximately \$400,000 for wheel loaders

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net position and governmental funds balance sheet on a single page and the statement of activities and governmental funds revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Note that Ottawa County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements in a separately issued comprehensive annual financial report.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with an overview of the Commission's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Commission itself (known as a *special purpose government*). The Commission has no legally separate component units for which the Commission is financially accountable.

The *statement of net position* presents information on all of the Commission's assets and liabilities, with the difference between the two 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 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., payments on long-term debt).

Both of the government-wide financial statements display functions of the Commission that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Ottawa County. The Commission does not have any business-type activities.

In this report, financial information for the Commission is reported separately from the financial information presented for Ottawa County which reports the Commission as a component unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission only utilizes and presents a general fund. The Commission does not utilize proprietary or fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, 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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be major fund.

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 fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management discussion and analysis, the general fund budgetary comparison schedule and pension and OPEB schedules.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$209,529,013 at the close of the most recent fiscal year.

The most significant portion of the Commission's net position reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission's capital assets consist of road infrastructure and capital assets used to construct and maintain this infrastructure; consequently, these assets are *not* available for future spending. Although the Commission investment in its 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.

	Governmental Activities	
	<u>2016</u>	<u>2017</u>
Assets		
Current assets	\$ 14,750,335	\$ 16,253,949
Noncurrent assets		
Capital assets	207,792,639	218,863,751
Total assets	<u>222,542,974</u>	<u>235,117,700</u>
Deferred outflows	<u>6,170,952</u>	<u>4,611,182</u>
Liabilities		
Current liabilities	3,182,263	3,097,731
Long-term liabilities	27,664,909	27,102,138
Total liabilities	<u>30,847,172</u>	<u>30,199,869</u>
Net position		
Net capital assets	207,792,639	218,863,751
Unrestricted	(9,925,885)	(9,334,738)
Total net position	<u>\$197,866,754</u>	<u>\$209,529,013</u>

Net position of the Commission increased by \$11,662,259. The increase in net position is primarily the result of the timing difference between when infrastructure is purchased and when depreciation is recorded on the infrastructure.

	Governmental Activities	
	<u>2016</u>	<u>2017</u>
Revenue		
Program revenue		
Charges for services	\$ 11,026,101	\$ 9,549,596
Operating grants and contributions	21,379,597	23,470,809
Capital grants and contributions	8,421,872	7,721,206
General revenue		
Interest/other income	467,023	437,930
Gain on sale of capital assets	-	1,036,762
Other	9,776	10,722
Total revenue	<u>41,304,369</u>	<u>4,227,025</u>
Expenses		
Public works	30,537,326	30,564,766
Total expenses	<u>30,537,326</u>	<u>30,564,766</u>
Increase (decrease) in net position	10,767,043	11,662,259
Net position, beginning of year	187,099,711	197,866,754
Net position, end of year	<u>\$197,866,754</u>	<u>\$209,529,013</u>

Governmental Activities

During the year the Commission reported approximately 41% of its total expenses for depreciation of capital assets. The remaining 59% of total expenses was for public works activities.

Financial Analysis of the Government's Funds (General Fund)

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Commission's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Commission's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Commission's general fund reported ending fund balance of \$13,156,218 an increase of \$1,963,146 in comparison with the prior year. This increase is primarily the result of the State of Michigan gas tax increase (act 51 distributions) and Ottawa County road millage revenue and the timing of projects and weather related maintenance activities.

The General fund is the chief operating fund of the Commission. At the end of the current fiscal year, unassigned fund balance of the General fund was \$615,677. As a measure of the General fund's liquidity, it is important to note that the General fund operates primarily on operating and capital grant funding.

General Fund Budgetary Highlights

- Budgeted additional revenues and expenditures for expected federal aid projects

Capital Asset and Debt Administration

Capital Assets. The Commission's investment in capital assets for its governmental activities as of September 30, 2017 amounted to \$218,863,751 (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- \$1.1 million towards construction for salt storage facilities
- \$900,000 for dump/plow trucks
- \$400,000 for wheel loaders

The Commission's capital assets (net of depreciation) are summarized as follows:

	Governmental Activities
Land and right-of-way	\$ 3,286,517
Construction in progress	2,894,003
Buildings and equipment	9,713,590
Infrastructure	<u>202,969,641</u>
Total	<u>\$218,863,751</u>

Additional information on the Commission's capital assets can be found in Note 4 of this report.

Debt. At the end of the current fiscal year, the Commission had outstanding long-term debt as follows:

	Governmental Activities
Compensated absences	\$1,249,500
Claims	<u>196,896</u>
Total	<u><u>\$1,446,396</u></u>

Additional information on the Commission's long-term debt can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Commission's budget for the 2017-2018 fiscal year:

- Anticipate increases in Michigan transportation fund due to a gas tax increase which began January 1, 2017
- Anticipate additional spending due to County-wide road millage

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ottawa County Road Commission, Managing Director, PO Box 739, Grand Haven, Michigan 49417.

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BASIC FINANCIAL STATEMENTS

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets			
Cash and investments	\$ 11,676,401	\$ -	\$ 11,676,401
Receivables			
State trunkline maintenance	508,996	-	508,996
Due from local units of government	162,930	-	162,930
Motor vehicle highway funds	2,210,043	-	2,210,043
Other	50,862	-	50,862
Inventories			
Equipment, material, and parts	501,218	-	501,218
Road materials	906,831	-	906,831
Prepaid insurance	236,668	-	236,668
Capital assets			
Land, right-of-way and construction in progress	-	6,180,520	6,180,520
Property and equipment, net	-	9,713,590	9,713,590
Infrastructure net	-	202,969,641	202,969,641
	<u>16,253,949</u>	<u>218,863,751</u>	<u>235,117,700</u>
Total assets	\$ 16,253,949	218,863,751	235,117,700
Deferred outflows of resources			
Deferred outflow for pension plan	-	4,611,182	4,611,182
	<u>-</u>	<u>4,611,182</u>	<u>4,611,182</u>
Liabilities			
Accounts payable	\$ 1,533,504	-	1,533,504
Accrued liabilities	853,542	-	853,542
Advances			
State trunkline equipment purchase	383,181	-	383,181
State trunkline maintenance	280,868	-	280,868
County drain special assessments payable	46,636	-	46,636
Noncurrent liabilities			
Net pension liability	-	24,424,829	24,424,829
OPEB liability	-	1,230,913	1,230,913
Due within one year	-	211,682	211,682
Due in more than one year	-	1,234,714	1,234,714
	<u>-</u>	<u>27,102,138</u>	<u>27,102,138</u>
Total liabilities	3,097,731	27,102,138	30,199,869
Fund balance			
Non-spendable			
Inventory	1,408,049	(1,408,049)	-
Prepaid	236,668	(236,668)	-
Restricted			
Primary	6,715,670	(6,715,670)	-
Local	79,877	(79,877)	-
Committed			
Capital projects	1,050,277	(1,050,277)	-
Assigned for subsequent year budget	3,050,000	(3,050,000)	-
Unassigned	615,677	(615,677)	-
	<u>13,156,218</u>	<u>(13,156,218)</u>	<u>-</u>
Total fund balance	13,156,218	(13,156,218)	-
Total liabilities and fund balance	<u>\$ 16,253,949</u>		
Net position			
Net investment in capital assets		218,863,751	218,863,751
Restricted for primary and local roads		-	-
Unrestricted		(9,334,738)	(9,334,738)
		<u>209,529,013</u>	<u>209,529,013</u>
Total net position		\$ 209,529,013	\$ 209,529,013

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

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET POSITION OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2017

Fund balances - total governmental funds	\$ 13,156,218
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Long-term assets and deferred outflows in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	218,863,751
Add - deferred outflows related to net pension liability	4,611,182
Certain liabilities, such as bonds, installment purchase agreements, compensated absences, and claims payable, are not payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(1,249,500)
Deduct - net pension liability	(24,424,829)
Deduct - post-employment benefit liability	(1,230,913)
Deduct - claims payable	<u>(196,896)</u>
Net position of governmental activities	<u>\$ 209,529,013</u>

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

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 19,652,624	\$ 10,912,142	\$ 30,564,766
Capital outlay	<u>21,036,255</u>	<u>(21,036,255)</u>	<u>-</u>
Total expenditures/expenses	<u>40,688,879</u>	<u>(10,124,113)</u>	<u>30,564,766</u>
Program revenues			
Charges for services			
Townships	5,159,780	-	5,159,780
State trunkline	4,389,816	-	4,389,816
Operating grants and contributions			
State transportation funds	23,470,809	-	23,470,809
Capital grants and contributions			
Federal and state sources	4,169,848	(375,000)	3,794,848
County millage	3,926,358	-	<u>3,926,358</u>
Net program revenue			<u>40,741,611</u>
General revenue			
Salvage sales	10,722	-	10,722
Interest/other	437,930	-	<u>437,930</u>
Total general revenue			<u>448,652</u>
Other financing sources			
Proceeds/gain from disposal of capital assets	<u>1,086,762</u>	<u>(50,000)</u>	<u>1,036,762</u>
Total revenues and other financing sources	<u>42,652,025</u>	<u>(425,000)</u>	
Change in fund balance/net position	1,963,146	9,699,113	11,662,259
Fund balances/net position, beginning of year	<u>11,193,072</u>	<u>186,673,682</u>	<u>197,866,754</u>
Fund balances/net position, end of year	<u>\$ 13,156,218</u>	<u>\$ 196,372,795</u>	<u>\$ 209,529,013</u>

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

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net changes in fund balances - general fund	\$ 1,963,146
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	23,664,994
Deduct - depreciation expense	(12,543,882)
Deduct - net book value of disposed assets	(50,000)
<p>Specific asset and liabilities are long-term in nature and related revenues or expenditures are recognized in future years. Current receipts and disbursements for these transaction are reflected on the fund financial statements as revenues and expenditures.</p>	
Deduct - decrease in long-term receivables	(375,000)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Add - decrease in compensated absences	47,483
Deduct - increase in other post-employment benefit liability	(112,479)
Add - increase in deferred outflows related to net pension liability	(1,559,770)
Deduct - decrease in net pension liability	809,246
Add - increase in claims payable	<u>(181,479)</u>
Change in net position of governmental activities	<u>\$ 11,662,259</u>

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

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ottawa County Road Commission (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Ottawa County Road Commission is a discretely presented component unit of Ottawa County, Michigan. The Commission was established pursuant to (MCL 224.1), and is governed by a five member Board of County Road Commissioners appointed by the Ottawa County Board of Commissioners.

The criteria established under generally accepted accounting principles for determining the reporting entity includes a significant operational or financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the Ottawa County Road Commission. The Commission has no component units.

The Commission general fund is used to control the expenditures of Michigan Transportation Fund monies and other grants and charges, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Commission.

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 governmental activities of the special purpose government (the Commission). *Governmental activities* are reported in total. The Commission has no business-type activities.

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the governmental funds balance sheet and the statement of net position as well as the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities. The General fund is considered to be a major fund for financial reporting purposes. The Commission only utilizes a General fund.

The Commission reports the following major governmental funds:

The *General Fund* is the government's only operating fund. It accounts for all current financial resources of the government.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for charges for services, interest and grant revenues which use one year. County millage is a property tax levied and collected by Ottawa County which is recognized as revenue when received by the Commission. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include compensated absences, claims, and principal and interest on long-term debt which are recognized when due.

The General fund is accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

The General fund operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, it is said to present a summary of sources and uses of “available, spendable resources” during a period.

Budgets and Budgetary Accounting

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

- The Managing Director submits a proposed budget for the upcoming year to the Commission.
- The budget is reviewed by the Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Commissioners.
- The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.
- The Commission adopts a budget for the general fund, by means of an appropriations act, 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. The budget is prepared on the modified accrued basis of accounting.
- All amendments to the budget require the approval of the Commissioners. The legal level of budgetary control for the Commission is at the departmental activity level.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cash and Investments

Cash and investments consist of the balance of cashing, check, savings, certificates of deposit, pooled investment and mutual fund accounts. The Commission invests its cash and investment through the Ottawa County Treasurer. Michigan law authorizes the Commission to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. 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.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended.

Receivables

Receivables consist primarily of the balance of gas and weight tax and trunkline maintenance fees due from the State of Michigan and balances due from local units of government for services provided. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year-end).

Inventory

Inventory, consisting of various operating parts, supplies, and road material is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

Capital Assets

Capital assets, which include land, property, equipment, and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Only infrastructure assets acquired or donated since 1980 are included in the Commission capital asset balance. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) on the date received.

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the Michigan Department of Transportation depreciation schedules for equipment and the straight-line method for infrastructure over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	25-50
Equipment	3-15
Infrastructure	30

Compensated Absences

Under the Commission's personnel policy and contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and sick leave under formulas and conditions specified in the policy and contracts. Accumulated leave of the General fund is recorded on the statement of net position and not on the General fund balance sheet because it is not expected to be liquidated with expendable available financial resources.

Advances

Advances consist of monies provided by the Michigan Department of Transportation (MDOT) to provide cash flow to finance equipment and services provided by the Commission on MDOT trunk line designated roads. The cost of equipment and services provided on trunk line roads is billed to the MDOT periodically.

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Commission has items that qualify for reporting in this category related to the pension liability that are discussed in Note 7.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has no deferred inflows to report.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned - the related assets can only be spent for a specific purpose but do not meet the criteria to be classified as committed.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

The Commission has not delegated the authority to assign fund balance. Only the Commission can assign or commit fund balance.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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2. CASH AND INVESTMENTS

All cash and investment accounts are managed by the Ottawa County Treasurer. Balances reported on the financial statements consist of the following at year-end:

	<u>Cash and Investments</u>
Deposits	\$ 1,492,984
Investments	10,183,417
Total cash and investments	\$11,676,401

Deposits

The deposits are in financial institutions located in Michigan in varying amounts. State law and Ottawa County policy limits the Commission's investing options to financial institutions located in Michigan. All accounts are in the name of the Commission. They are recorded in Commission records at fair value. Interest is recorded when earned.

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and Ottawa County does not have, a policy for deposit custodial credit risk. As of year-end, \$2,096,986 of the Commission's bank balance of \$2,995,247 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Investments

The Commission chooses to disclose its investments by specifically identifying each. As of year-end, the Commission had the following investment:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
MBIA Michigan Class	N/A	\$10,183,417	AAAm	Moody

Investment risk

Interest Rate Risk. State law and Ottawa County policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. Ottawa County'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. The maturity date for each investment is identified above for investments held at year-end. There is no stated maturity date for the Commission's investment in MBIA Michigan Class identified above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. Ottawa County's investment policy does not have specific limits in excess of state

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law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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, and Ottawa County does not have, a policy for investment custodial credit risk. Of the above investments in MBIA Michigan Class, the Commission's custodial credit risk exposure cannot be determined because the investment fund does not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. Ottawa County's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

The Commission categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Commission has the following recurring fair value measurements as of year-end.

- The Commission does not have any investments valued using quoted market prices (Level 1 inputs).
- The MBIA Michigan Class investment is valued using a pricing model utilizing observable fair value measures of fund investments and other observable inputs to determining the fair value of the securities making up the of investment fund (Level 2 inputs).
- The Commission does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

3. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Commission for the year:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017	Due Within One Year
Governmental Activities					
Compensated absences	\$1,296,983	\$211,682	\$259,165	\$1,249,500	\$211,682
Claims Payable	15,417	196,896	15,417	196,896	-
Total Governmental Activities	\$1,312,400	\$408,578	\$274,582	\$1,446,396	\$211,682

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4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2017</u>
Governmental Activities				
Capital assets, not being depreciated				
Land and right-of-way	\$ 3,336,517	\$ -	\$ 50,000	\$ 3,286,517
Construction in progress	1,641,797	1,840,521	588,315	2,894,003
Total capital assets, not being depreciated	4,978,314	1,840,521	638,315	6,180,520
Capital assets, being depreciated				
Buildings and improvements	11,590,052	-	-	11,590,052
Road equipment	21,189,999	1,366,216	1,027,000	21,529,215
Shop equipment	492,463	-	-	492,463
Office equipment	663,441	10,317	-	673,758
Infrastructure				
Primary	204,788,539	12,427,296	-	217,215,835
Local	143,289,482	8,608,959	-	151,898,441
Total capital assets, being depreciated	382,013,976	22,412,788	1,027,000	403,399,764
Less accumulated depreciation for:				
Buildings and improvements	4,538,978	249,733	-	4,788,711
Road Equipment	18,457,352	1,353,458	1,027,000	18,783,810
Shop equipment	453,372	8,263	-	461,635
Office equipment	513,484	24,258	-	537,742
Infrastructure				
Primary	88,913,153	6,476,610	-	95,389,763
Local	66,323,312	4,431,560	-	70,754,872
Total accumulated depreciation	179,199,651	12,543,882	1,027,000	190,716,533
Net capital assets, being depreciated	202,814,325	9,868,906	-	212,683,231
Governmental Activities capital assets, net	\$207,792,639	\$11,709,427	\$638,315	\$218,863,751

Depreciation expense was charged to the public works function during the year.

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FOR THE YEAR ENDED SEPTEMBER 30, 2017

5. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Commission shall not incur expenditures in excess of the amount appropriated for the general fund. In the body of the financial statements, the Commission's actual expenditures and budgeted expenditures for the general fund have been shown on a departmental activity basis.

During the year the Commission incurred expenditures in the general fund which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Other	\$4,450,000	\$5,047,050	\$(597,050)

6. RISK MANAGEMENT

The Commission is exposed to lawsuits and claims. In response to this exposure, the Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP). Participation in the MCRCSIP requires payment of premiums to the pool. The pool purchases commercial reinsurance on behalf of its members. Due to the Commission's participation in this pool, the liability of the Commission relative to claims covered by the pool is limited to \$25,000 per occurrence.

The Commission's self-funded workers' compensation program includes stop-loss coverage in excess of \$300,000 per incident. This limits the Commission's responsibility for payment to \$300,000 per workers' compensation claim.

The Commission's self-funded insurance claims that have been incurred through the end of the year include both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the government-wide statements as they are not expected to be liquidated with expendable available financial resources. The Commission is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. Settled claims for the Commission have not exceeded coverage during the past three years. There have been no significant reductions in insurance coverage during the past year.

The changes in the claims liability for the years ended September 30, 2017 and 2016 are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments/ Settlements</u>	<u>End of Year Liability</u>
MCRCSIP Liability Plan				
2016	\$ -	\$ -	\$ -	\$ -
2017	-	3,900	-	3,900
Workers' Compensation Plan				
2016	42,732	1,945	29,260	15,417
2017	15,417	222,973	45,394	192,996

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7. RETIREMENT PLANS

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. 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 3 years average.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2016):

Inactive employees or beneficiaries currently receiving benefits	139
Inactive employees entitled but not yet receiving benefits	14
Active plan members	<u>95</u>
Total	<u><u>248</u></u>

Contributions

The Commission is required to contribute at an actuarially determined rate, which for the current year was from 22.95% to 55.88% of annual covered payroll depending on position and classification. Participating employees are required to contribute from 3% to 4% percent of gross wages to the Plan based on position and classification. 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 by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2016 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)

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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%
Investment rate of return			8.00%

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	Plan	Net Pension
	Pension	Fiduciary Net	
	Liability	Position	Liability
	(a)	(b)	(a)-(b)
Balance at January 1, 2016	\$54,192,904	\$28,958,829	\$25,234,075
Changes for the year:			
Service cost	574,269	-	574,269
Interest	4,206,377	-	4,206,377
Change in benefits	-	-	-
Differences between expected and actual experience	(104,527)	-	(104,527)
Change in assumptions	-	-	-
Contributions : employer	-	2,100,680	(2,100,680)
Contributions: employee	-	245,342	(245,342)
Net investment Income	-	3,202,709	(3,202,709)
Benefit payments, including refunds	(3,800,662)	(3,800,662)	-
Administrative expense	-	(63,366)	63,366
Other changes	-	-	-
Net changes	875,457	1,684,703	(809,246)
Balance at December 31, 2016	\$55,068,361	\$30,643,532	\$24,424,829

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%	Current	1 %
	Decrease	Discount	increase
		rate	
Total Pension Liability	\$60,471,151	\$55,068,361	\$50,407,089
Fiduciary Net Position	30,643,532	30,643,532	30,643,532
Net Pension Liability	\$29,827,619	\$24,424,829	\$19,763,557

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2017 the employer recognized pension expense of \$3,435,206. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred	Deferred
	Outflows of	Inflows of
	Resources	Resources
Differences in experience	\$ (49,457)	\$ -
Differences in assumptions	1,213,949	-
Excess(deficit) investment returns	1,189,371	-
Contributions subsequent to the Measurement date*	2,257,319	-
Total	\$4,611,182	\$ -

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

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

2017	\$1,092,522
2018	1,092,522
2019	358,165
2020	(189,346)
2021	-
Thereafter	-
	<hr/>
Total	<u>\$2,353,863</u>

Section 457 Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Commission's financial statements.

8. OTHER POST-EMPLOYMENT BENEFITS

The Commission administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides of health insurance premiums for retirees until age 65 (Medicare eligible). The plan was closed to non-bargaining employees hired after September 12, 2013 and bargaining employees hired after May 31, 2016. Benefit provisions are established through negotiations between the Commission and bargaining units and employee groups. The Commission makes 80% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

The Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The most recent actuarial valuation of the Retiree Health Plan was performed as of October 1, 2014 for the plan year ended September 30, 2015.

The contribution requirements of Plan members and the City are established and may be amended by the Commission. The required contribution is based on projected pay-as-you go financing requirements. For the year ended September 30, 2017 the Commission contributed \$113,853 to the Plan.

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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	\$ 337,063
Interest on Net OPEB obligation	44,737
Adjustment to annual required contribution	<u>(155,468)</u>
Annual OPEB cost (expense)	226,332
Contribution made	<u>113,853</u>
Increase in net OPEB obligation	112,479
Net OPEB obligation, beginning of year	<u>1,118,434</u>
Net OPEB obligation, end of year	<u><u>\$1,230,913</u></u>

Three-Year Trend Information

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
9/30/15	\$191,783	73%	\$1,025,855
9/30/16	221,653	58%	1,118,434
9/30/17	226,332	50%	1,230,913

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>
10/1/15	\$ -	\$1,632,020	\$1,632,020	0%	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 on a pay as you go basis.

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.

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In the October 1, 2014, actuarial valuation, the entry age normal actuarial cost method, level percent, closed amortization method, and an amortization period of 10 years were utilized. The remaining amortization period at October 1, 2014, was 10 years. The actuarial assumptions included a 0% return on plan assets as the plan is not funded, a discount rate of 4%, 8% inflation in 2015 graded to 5% in 2021.

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.

9. SINGLE AUDIT

Governmental and certain other entities, which expend \$750,000 or more of direct federal dollars, are subject to a single audit in accordance with the Uniform Guidance. The Commission expended \$3,779,596 of federal/state dollars, which were administered by the Michigan Department of Transportation (MDOT). The monies will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$750,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

10. COMMITMENTS

At year-end the Commission had construction and contract commitments outstanding of approximately \$854,000.

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REQUIRED SUPPLEMENTARY INFORMATION

OTTAWA COUNTY ROAD COMMISSION
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GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Michigan transportation fund	\$ 22,300,000	\$ 23,100,000	\$ 23,470,809	\$ 370,809
Federal and state sources	1,500,000	4,100,000	4,169,848	69,848
County millage	4,000,000	3,926,000	3,926,358	358
State trunkline maintenance	3,500,000	4,000,000	4,389,816	389,816
Total intergovernmental revenues	<u>31,300,000</u>	<u>35,126,000</u>	<u>35,956,831</u>	<u>830,831</u>
Charges				
Local sources	<u>6,000,000</u>	<u>6,000,000</u>	5,159,780	(840,220)
Other revenues				
Salvage sales			10,722	
Interest/charges for services			437,930	
Total other revenues	<u>140,000</u>	<u>125,000</u>	<u>448,652</u>	<u>323,652</u>
Total revenues	<u>37,440,000</u>	<u>41,251,000</u>	<u>41,565,263</u>	<u>314,263</u>
Expenditures				
Primary road				
Construction and heavy maintenance			12,427,296	
Maintenance			4,368,780	
Total primary road	<u>16,000,000</u>	<u>17,900,000</u>	<u>16,796,076</u>	<u>1,103,924</u>
Local road				
Construction and heavy maintenance			8,608,959	
Maintenance			5,780,194	
Total local road	<u>14,500,000</u>	<u>14,925,000</u>	<u>14,389,153</u>	<u>535,847</u>
State trunkline maintenance	<u>4,000,000</u>	<u>4,500,000</u>	<u>4,456,600</u>	<u>43,400</u>
Other				
County drain assessments			156,264	
Material processing			29,150	
Equipment expenses, net			247,287	
Administrative/engineering expenses, net			3,296,911	
Capital outlay, net			2,953,151	
Depreciation expense			(1,635,713)	
Total other	<u>5,750,000</u>	<u>4,450,000</u>	<u>5,047,050</u>	<u>(597,050)</u>
Total expenditures	<u>40,250,000</u>	<u>41,775,000</u>	<u>40,688,879</u>	<u>1,086,121</u>
Revenues over (under) expenditures	<u>(2,810,000)</u>	<u>(524,000)</u>	<u>876,384</u>	<u>1,400,384</u>
Other financing sources				
Sales of capital assets		<u>900,000</u>	1,086,762	186,762
Net changes in fund balance	(2,810,000)	(524,000)	1,963,146	2,487,146
Fund balance, beginning of year	<u>11,193,072</u>	<u>11,193,072</u>	<u>11,193,072</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,383,072</u>	<u>\$ 10,669,072</u>	<u>\$ 13,156,218</u>	<u>\$ 2,487,146</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 612,516	\$ 572,384	\$ 574,269
Interest	3,975,246	3,935,806	4,206,377
Change in benefits	-	(22,048)	-
Difference between expected and actual experience	-	57,879	(104,527)
Change in assumptions	-	2,427,897	-
Benefit payments including employee refunds	(3,483,066)	(3,626,781)	(3,800,662)
Other changes	-	122,994	-
Net change in total pension liability	<u>1,104,696</u>	<u>3,468,131</u>	<u>875,457</u>
Total pension liability, beginning of year	<u>49,620,077</u>	<u>50,724,773</u>	<u>54,192,904</u>
Total pension liability, ending of year	<u>\$ 50,724,773</u>	<u>\$ 54,192,904</u>	<u>\$ 55,068,361</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 1,523,257	\$ 1,651,419	\$ 2,100,680
Contributions-employee	215,174	235,512	245,342
Net investment income	1,926,154	(443,741)	3,202,709
Benefit payments including employee refunds	(3,483,066)	(3,626,781)	(3,800,662)
Administrative expense	(70,364)	(66,745)	(63,366)
Net change in plan fiduciary net position	<u>111,155</u>	<u>(2,250,336)</u>	<u>1,684,703</u>
Plan fiduciary net position, beginning of year	<u>31,098,010</u>	<u>31,209,165</u>	<u>28,958,829</u>
Plan fiduciary net position, ending of year	<u>\$ 31,209,165</u>	<u>\$ 28,958,829</u>	<u>\$ 30,643,532</u>
Employer net pension liability	<u>\$ 19,515,608</u>	<u>\$ 25,234,075</u>	<u>\$ 24,424,829</u>
Plan fiduciary net position as a percentage of the total pension liability	62%	53%	56%
Covered employee payroll	6,099,475	5,720,762	5,699,998
Employer's net pension liability as a percentage of covered employee payroll	320%	441%	429%

Notes to schedule:

Above dates are based on a December 31 measurement date.

This schedule is being accumulated prospectively until ten years of data is presented.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2015	2016	2017
Actuarial determined contributions	\$ 1,371,098	\$ 1,426,915	\$ 1,466,702
Contributions in relation to the actuarially determined contribution	1,671,098	1,926,915	2,666,702
Contribution excess (deficiency)	<u>\$ 300,000</u>	<u>\$ 500,000</u>	<u>\$ 1,200,000</u>
Covered employee payroll	6,099,475	5,720,762	5,699,998
Contributions as a percentage of covered employee payroll	27%	34%	47%
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		

Note to schedule:

This schedule is being accumulated prospectively until ten years of data is presented.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

RETIREE HEALTH POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	\$ -	\$ 1,835,591	\$ (1,835,591)	0.00%	not available	not available
10/1/2011	-	1,931,708	(1,931,708)	0.00%	not available	not available
10/1/2014	-	1,632,020	(1,632,020)	0.00%	not available	not available

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
SCHEDULES**

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Fund balances, beginning of year	\$ 9,211,773	\$ 71,125	\$ 1,910,174	\$ 11,193,072
Revenues	29,108,438	12,442,174	14,651	41,565,263
Expenditures	<u>23,309,824</u>	<u>16,033,422</u>	<u>1,345,633</u>	<u>40,688,879</u>
Revenues over (under) expenditures	5,798,614	(3,591,248)	(1,330,982)	876,384
Other financing sources (uses)	<u>(3,600,000)</u>	<u>3,600,000</u>	<u>1,086,762</u>	<u>1,086,762</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>2,198,614</u>	<u>8,752</u>	<u>(244,220)</u>	<u>1,963,146</u>
Fund balances, end of year	<u>\$ 11,410,387</u>	<u>\$ 79,877</u>	<u>\$ 1,665,954</u>	<u>\$ 13,156,218</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Revenues				
Michigan Transportation Fund				
Engineering	\$ 6,980	\$ 3,020	\$ -	\$ 10,000
Primary road	16,241,392	-	-	16,241,392
Local road	-	7,153,210	-	7,153,210
Snow removal	<u>29,793</u>	<u>36,414</u>	-	<u>66,207</u>
Total Michigan Transportation Fund	16,278,165	7,192,644	-	23,470,809
Federal and state sources	4,169,848	-	-	4,169,848
Trunkline maintenance	4,389,816	-	-	4,389,816
State other	-	-	-	-
Local sources	56,997	5,102,783	-	5,159,780
County millage	3,926,358	-	-	3,926,358
Salvage sales	10,722	-	-	10,722
Interest/other	<u>276,532</u>	<u>146,747</u>	<u>14,651</u>	<u>437,930</u>
Total Revenues	<u>29,108,438</u>	<u>12,442,174</u>	<u>14,651</u>	<u>41,565,263</u>
Other financing sources (uses)				
Sales of capital assets	-	-	1,086,762	1,086,762
Transfer	<u>(3,600,000)</u>	<u>3,600,000</u>	-	<u>-</u>
Total other financing sources (uses)	<u>(3,600,000)</u>	<u>3,600,000</u>	<u>1,086,762</u>	<u>1,086,762</u>
Total revenues and other financing sources	<u>\$ 25,508,438</u>	<u>\$ 16,042,174</u>	<u>\$ 1,101,413</u>	<u>\$ 42,652,025</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Expenditures				
Primary road				
Construction and heavy maintenance	\$ 12,427,296	\$ -	\$ -	\$ 12,427,296
Maintenance	4,368,780	-	-	4,368,780
Local road				
Construction and heavy maintenance	-	8,608,959	-	8,608,959
Maintenance	-	5,780,194	-	5,780,194
State trunkline maintenance	4,456,600	-	-	4,456,600
Other				
County drain assessments	156,264	-	-	156,264
Materials processing	29,150	-	-	29,150
Equipment expense, net	124,212	123,075	-	247,287
Administrative expense, net	1,775,717	1,521,194	-	3,296,911
Capital outlay	-	-	2,953,151	2,953,151
Depreciation	(28,195)	-	(1,607,518)	(1,635,713)
	<u>\$ 23,309,824</u>	<u>\$ 16,033,422</u>	<u>\$ 1,345,633</u>	<u>\$ 40,688,879</u>
Total expenditures	<u>\$ 23,309,824</u>	<u>\$ 16,033,422</u>	<u>\$ 1,345,633</u>	<u>\$ 40,688,879</u>

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INTERNAL CONTROL AND COMPLIANCE



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INDEPENDENT AUDITORS' 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

January 29, 2018

Ottawa County Road Commission
Board of Commissioners
Grand Haven, 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 and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the Commission's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Orlando Haefner LLC